PEOPLE'S BANKS

FOR

NORTHERN INDIA.

A HANDBOOK

TO THE

ORGANISATION OF CREDIT ON A CO-OPERATIVE BASIS.

BY

H. DUPERNEX, C.S.

Calcutta:
THACKER, SPINK & CO.

1900.

CALCUTTA:
PRINTED BY THACKER, SPINK & CO.

Dedication.

To Dr. J. H. GLADSTONE, F.R.S.,

THIS LITTLE WORK IS INSCRIBED

AS A SLIGHT TRIBUTE OF ADMIRATION AND RESPECT.

PREFACE.

My object in writing this little book, which makes no particular pretence at originality, is to bring within reach of the ordinary resident of Northern India in a handy compass a brief description of the methods of Co-operative Banking and the principles upon which it is based. Most of the works upon the subject are in foreign languages, and are more or less inaccessible to the public of this country. Until Mr. Wolff published his book on People's Bank, and until Mr. Nicholson's report upon Land and Agricultural Banks was printed, there were few people even in England who had any special knowledge of the subject. Yet the subject is one which should possess absorbing interest to us in India, for it shows what has been done and can be done to overcome one of the greatest economic evils that a nation can suffer from—that of Usury; while in a lesser degree it offers by the encouragement it affords to thrift a partial solution of a still greater evil—that of Famine.

It has been my aim to subordinate detail as far as is consistent with the object of the book to a clear enunciation of principles. I have sought to show the lines upon which co-operative banking can be practised in Northern India, dwelling more upon the fundamental requirements of a co-operative bank whether in a Town or Village than upon the *minutiæ* of the business of a bank when it is in working order. I have adopted this course because I believe there are hundreds of men in this country well able to work out the details of a bank of this sort if the lines upon which it should be worked are clearly

placed before them. If the book serves only to draw attention to the subject, I shall be satisfied that it has not been written for nothing.

I take this opportunity of acknowledging the great help Mr. H. Wolff has given me in the preparation of this book, and I also have to thank M. Rayneri, Cav. Ferrario, S. Valentini, Cav. Sani, S. Contini and many others for the kind assistance they have given me when I visited France and Italy collecting materials, and I have also to acknowledge the debt I am under to Mr. Nicholson's encyclopedic report.

H. E. D.

PEOPLE'S BANKS

FOR

NORTHERN INDIA.

A HANDBOOK TO THE ORGANISATION OF CREDIT ON A CO-OPERATIVE BASIS.

CONTENTS.

PART I.

CHAPTER I.

CHAPTER II.

CHAPTER IV.

CHAPTER V.

PEOPLE'S BANKS

FOR

NORTHERN INDIA.

CHAPTER I.

INTRODUCTORY.

Of all the many and varied problems which claim the attention of the Indian administrator there is probably none more intricate, none less easy of solution, and none of more widespread interest to the general public than that of money-lending with its cognate subject of land indebtedness. Usury is no new thing; it is not a product peculiar to India; it has flourished among rich nations as much as among poor ones; it has taxed the best brains of men of all nations for a remedy during all times. Prophets have denounced it, legislators have passed statutes against it, commissions have enquired into it, but though often defeated, its forces have never been annihilated. For its strength lies in the weakness of human nature. So long as mankind is improvident, so long as thrift is the exception and not the rule, so long as a man lacks self-restraint to deny himself the pleasure of ministering to wants which luxury creates and his own means cannot satisfy, for so long will be the opportunity of the usurer.

At the outset, to prevent misconception, it is advisable to distinguish as far as is possible between what for a better term we may call legitimate money-lending and lending on usurious interest. All borrowers fall naturally into two classes. In the first instance the borrower seeks

a loan because he hopes to make a profit out of the money so obtained, in the second he seeks a loan because necessity compels him to do so. In any organized commercial community a man has little difficulty in obtaining money when he is able to satisfy the lender that the loan will result in profit to himself. The rate of interest charged by the lender will vary a great deal according to the risk involved in the venture. If the borrower is a man of credit, a man who can give security, he can obtain his loan at any bank at the recognised market rates; but if his credit is poor, or the security he offers weak, he must expect to pay a high rate of interest for the accommodation he requires. A transaction of this kind, purely mercantile in character, involves nothing according to modern ideas, which of itself is prejudicial to society. It is the borrower's own concern if he chooses to have recourse to an outside money-lender rather than to a banker under such circumstances. In the second instance, the case is widely different. The borrower is compelled through necessity to raise a loan, and as in such a case he rarely has adequate security to offer, he has to take such terms as the usurer is willing to concede him, and the bargain is a one-sided one from the outset. The usurer's rate of interest is governed solely by his fear of losing his principal owing to the badness of his security, and by his desire to reimburse himself in each particular instance against losses in similar speculative investments.

Not a few attempts have been made in the past, and in point of fact attempts in some countries still are being made, to protect the borrower, in spite of himself, when the usurer turns to account his victim's pressing need to conclude the bargain in order to wring an exorbitant rate of interest from him. Such attempts are generally futile and sometimes harmful. There are always borrowers with whom present considerations are so paramount that

they have no hesitation in acquiescing to a form of agreement which would enable the usurer to evade the obligations laid upon him by law, and again it is exceedingly difficult to make regulations which would control usurious rates of interest without infringing on the domain which is influenced by the operations of legitimate money-lending. A man may have to pay as high an interest for a loan on account of the speculative nature of the business he is embarking in with it as a man who is forced by necessity to raise money for an unproductive purpose. It is practically impossible to lay down a fixed rule that at any given point interest becomes usurious. Each case must be judged on its individual merits. There is no well-defined line between legitimate money-lending and lending on usurious interest. In generalizing loosely on the subject, it will be sufficient to regard all cases where the bargain is governed by ordinary market considerations as belonging to the sphere of legitimate money-lending, and all cases where the transaction is dominated by the borrower's need as coming under the category of lending at usurious rates.

In olden times a great prejudice existed in the Christian world against money-lending on interest in any form whatever. A similar prejudice exists to this day among Mahommedans, of so strong a nature that a Mahommedan gentleman has been known to forego his interest on Government stock rather than indirectly sanction a practice of which his religious teaching disapproved. The writings of Calvin, the Protestant reformer, did much to dissipate the confusion that existed in the popular mind between loans for a productive purpose where the borrower required the money to make a profit for himself over and above the interest he paid for the use of it, and loans for an unproductive purpose where the borrower was forced to borrow without hope of turning the money

to advantage, which would, in any adequate way, compensate him for the interest he paid on it. But what did more than any individual's writings on the subject to educate the popular mind was the development of the modern banking system. The bank eliminates to a great extent the personal element which is the most objectionable feature in usury. Its sole object in making loans is to obtain a fair profit on the transaction differing therein from the usurer who more often than not has some ulterior object in view when he lends his money. It enables any one who desires the use of capital and can afford paying for it, to obtain it with as great facility as if he was hiring a boat or a cart or anything else which suits his convenience for the moment.

In its present form the bank is the highest expression of organized credit. In commercial communities it fulfills nearly all the requirements of the individual borrower, but like most other human institutions it has its limitations. The care which the banker has to exercise over each separate transaction tends to discourage business with the borrower on a small scale. The trouble involved in dealing with an application for a loan of five rupees is the same as would be required in the case of one for five hundred, but the profit derived from the first transaction is trifling as compared with that obtained from the second one. The consequence is that while the rich man and the well-to-do middle class trader has every facility in obtaining loans from a bank, the poorer trader and the workman have to content themselves with the services of the outside money-lender. Again, small profits coupled with quick returns are more in consonance with the traditions of sound banking than high profits and investments of indefinite duration from which it might be difficult to disengage capital when needed elsewhere. Now, in operations connected with agriculture returns are invariably slower

than returns from ordinary commercial transactions, and it is more difficult to realize capital sunk in land than in any other security. The result is that the average farmer has much more difficulty in obtaining credit than the average commercial man. The proof of this is that in continental countries where agriculture is the chief industry, the usurer flourishes in a way that is unknown in a commercial country like England, and this, in spite of the fact that the country in question may be covered with a network of banks.

As might have been expected, it is precisely in those continental countries where the character of the community is more agricultural than commercial, where credit has not reached the same development as in England, where returns are not likely to be quick, nor transactions on a large scale, that attempts have been made to adapt the principles of banking, so as to bring its advantages within the reach of the borrower of petty sums, and the farmer in search of long term loans. The attempts which have succeeded best are those which work on a co-operative basis. The essential merits of the particular system which has succeeded so well in Italy, it is the object of the present work to bring to notice. The system in vogue in Italy has been chosen because it is probably the system which, with slight modifications, has the best chance of success if introduced into India. It must not be supposed that the introduction of the co-operative idea into banking in any way clashes with the principles of joint-stock banking. The great aim of co-operative banks is to occupy the ground left vacant by the ordinary banks, and to bring credit within reach of all those who, from various causes, are unable to avail themselves of the advantages of existing joint-stock banks. The co-operative bank is enabled to work more economically than a joint-stock company, because it does not work for

the benefit of capitalists aiming at a high dividend, but for the benefit of its own members. Its great merit is that it safeguards its members against the abuse of credit by maintaining a strict watch over the uses to which each loan it makes is put. Its superiority as a means of combating usury consists in the fact that it is a local institution composed of members, all acquainted with one another, and as well able to estimate the amount of risk there is in lending to any individual member, as the money-lender is when he lends to one of his clients, and equally competent to watch over the operation of the loan and provide that personal supervision over the borrower, which is the chief weapon in the money-lender's equipment. The aims and objects of the Italian co-operative popular banks, as summed up in a foreign office report, are as follows :—

"Like the credit unions founded in Germany by Schulze, the Italian Co-operative People's Banks are simply associations by means of which artisans, peasants, small tradesmen, and, in fact, all classes of persons who, though honest and intelligent, could not otherwise obtain credit without submitting to every form of usury, combine to establish a local self-governing institution of credit to meet their requirements.

"They are based upon the principle of self-help and aim at developing habits of prudence and thrift in their members by providing them with a profitable means of investment for their savings, while they seek to put down usury by the facilities which they afford for obtaining loans and advances of money at a reasonable rate of interest.

"The members, being at once the proprietors of the bank and its clients, have a direct interest in its making a profit, and a sufficient inducement to keep the rate of interest charged on loans and advances within proper limits.

"The pecuniary interest of each member of the association, through the shares subscribed by him and his contribution to the reserve fund, offers a *material* guarantee for the punctual repayment of his debts to the bank, and a *moral* guarantee is created by the restrictions imposed upon the admission of new members and the sale or transfer of shares which must be submitted to the board of directors for approval.

"In connection with this subject, Signor Luzzatti observes that, in an ordinary joint-stock company the member's money is the main object considered; but in a co-operative credit association, the person of the shareholder is of much greater importance than the share itself, since, in the latter society, the moral worth of the persons who compose it, united as they are for the purpose of obtaining by means of co-operation the credit which they would not find in other institutions, supplements and completes the material worth of the shares, which are accumulated gradually, and even in some cases by weekly instalments of a few centimes.

"In order to secure the efficiency of such a moral guarantee, it is most desirable that the members of the association should be well known to each other, especially during the early period of its existence, and that the bank authorities should maintain a strict supervision over the granting of loans and advances.

"The area in which the operations of the bank are carried on must, therefore, not be too extensive, so that its members may have frequent opportunities of intercourse with it and with one another, and be able to take an active part in its management without personal inconvenience, and Signor Luzzatti accordingly recommends the conversion of branches of existing banks into independent institutions wherever their condition is sufficiently flourishing to justify such a course, as well as the foundation in large

centres of population of small independent banks side by side with those already established."

A feature of co-operative banking on which it is impossible to lay too great stress is the eminently safe character of its operations. Leading European economists all unite in testifying to the safety with which its business is carried on. The point is one of considerable importance in India, for, undoubtedly, one of the great hindrances to the spread of joint-stock banking in this country is the difficulty of keeping such institutions on a firm and stable basis in places where the average shareholder has no particular knowledge of business and is unable to exercise the requisite amount of control over his servants. Joint-stock institutions flourish best in an atmosphere where public opinion can make itself felt and where the Press is strong. At present there is nothing to prevent any persons, in a small town, from forming a joint-stock limited liability bank, so long as they conform to the very light conditions required by law. Such an institution is wanting in stability, if its shareholders are all men ignorant of the elements of business, unable to control their directors, who in turn are not held in check by fear of public criticism. The danger of such institutions to the public has been unfortunately only too well exemplified, in the North-West Provinces, by the failure of the Himalaya and the Rohilkund and Kumaon Banks. Both these institutions probably did useful work and supplied a recognized want, but no attempt has been made to re-constitute either of them. This is no reason, however, why their place should not be taken by banks working on safer principles. The co-operative institution is much less ambitious in the scope of its operations than an ordinary joint-stock company. Its machinery is more clumsy it is true, but, in the words of M. Ferraris, a former Italian Minister, 'it is inconceivable how a co-operative bank properly managed can go wrong.'

In India, at the present moment, there is an imperative need for the extension of banking facilities. Banks are needed not only to curb the power of the usurer, but to develop the country. No organization of industry on any scale is practicable without previous organization of credit. The complex civilization of the Western world has reached its present wonderful development solely through the help of banking institutions, which, to borrow an expression from Professor Thorold Rogers, have mobilized and marshalled into line the forces of capital. The obstacles which distance formerly put in the way of free intercourse between the Eastern and Western worlds are every day growing less and less, and railways and steamers now enable the merchant to accomplish in days and weeks journeys which, in olden times, took him months and even years to perform. The economic interdependence of nations is fast becoming accentuated. Every mile of railway now laid down in India is forging a link in the chain, which is dragging her out of her old system of economic isolation. Railways are now invading China and Africa, the last blank spaces left on the map, and the undertaking of such works, which will bridge over the gaps still left in the world's communications, foreshadows a time not far distant when all the world will be subject to the more or less simultaneous action of well-known economic laws. The evils of waste will be reduced to a minimum, as in case of an excess of supply in any one product in a particular place, there will be little difficulty in transporting it to a spot where there is either a deficiency in the supply or a demand for that particular product. In the struggle between the different nations for economic supremacy which is bound to ensue, it is not the strongest that will survive nor the weakest that will go to the wall. The victory will go to those who are best equipped for the struggle—to the best organized. In many respects India,

as compared with surrounding Asiatic nations, stands well equipped for entering on such a contest. No efforts have been spared to improve internal communications. Security is guaranteed by a strong government, and education is slowly penetrating down to the masses ; but in the organization of credit there is a terrible deficiency. The power of the usurer is felt throughout the land, and until the individual money-lender has been to a great extent superseded by organized banking institutions, it is premature to expect any general development of industry.

The predominance of the usurer at the present time, in Indian life, is inextricably associated with the question of land indebtedness. In the North-West Provinces, the great body of the people are engaged in agricultural operations, and when they borrow, the only available asset they have at their disposal is either their land or their rights in the land. Borrowings are rarely made for productive purposes, and in consequence the difficulty of clearing off a debt once contracted is considerably increased. As the land is largely in the possession of village communities it is not only a few impoverished landlords, but the great mass of farmers who, in their capacity of co-sharers in the village, feel as keenly as any great landlord the working of the causes which are throwing the land into the hands of the money-lender. It is no new thing for the land to exercise a peculiar attraction over the man who has money to lend. The possession of land is invariably supposed to carry with it a certain dignity which is wanting in other possessions. Land being *per se* a desirable acquisition, and the facilities for passing it from hand to hand being greater now than at any previous period in Indian history, it is not surprising that the man with money to lend should seek to tighten his hold on it by every means in his power. Moreover, history shows us that the greatest opportunity for the man with wealth at his disposal to establish himself on the land is

generally in the time immediately following on some great social upheaval. Among classes of society just as among men there is a continual process of selection going on resulting in the survival of the fittest, and this process is accelerated when violent changes take place in the national organization. It is at such a time that the pushing man of business and the man who has hoarded wealth come to the front and oust the noble who has pinned his faith to a lost cause or the landowner who is unable to keep pace with the novel conditions in which he finds himself. It will be sufficient to mention in illustration of this the well-known instances of Rome after the Marian troubles and Syllan proscriptions when the Equites forced their way to practically equal rights with Senators of England at the time of the Crusades when countless estates were pledged by barons going to the wars and never redeemed, of France in the revolutionary era when nearly all the estates held by the nobility fell into the hands of men of no social account who happened to have savings at their disposal. A similar tendency has been visible in India this century. With the English dominion have come new ideas, new conditions, new wants. A large class enriched by trade akin to the English middle class has come into existence and is rapidly growing in strength and importance every day. A large class, the landowning one, has lost ground temporarily through its inability to grasp in a moment the extent of the great changes that were taking place in the social structure. The situation has been complicated by the great rise in the value of property and the consequent facility with which it can be used as a means of obtaining loans. Nor must it be forgotten that the average Indian landowner has a great and inherent dislike to parting with his rights by direct sale, and that the easiest way left to the monied classes to oust him from the land is by first entangling

him in a net of mortgages with a view to foreclosure. A slow but steady transference of the land from the hands of its present proprietors into those of men of wealth is bound to take place under existing conditions, and it is not likely to cease until the general body of landowners recognize that if they wish to keep their position in society, they must adapt themselves to the changed conditions which surround them, develop their own resources, and prepare to make use of every advantage which is now offered them in the present state of society.

The money-lender stands on a slightly different footing with regard to the peasant from that which he occupies in relation to the landed classes. Nothing is to be gained by divorcing the peasant from the soil, so the efforts of the usurer are principally directed towards extracting from his victim the greater part of the fruits of his toil for as long a period as possible. But the causes which induce the peasant to borrow are very much the same as those which influence the landholder. Probably no better reasons can be given than those which the Deccan Commission assigned in their reports to account for the indebtedness of the Deccan peasant. With slight limitations the same reasons may be held to apply with equal force to the great mass of agriculturists in Northern India, though the first relating to unproductive soil, &c., is not one that affects the North-West Provinces. They are as follows :—

1. Poverty with unproductive soil, precarious climate and irregularity of income.
2. Ignorance and improvidence.
3. Extravagance.
4. Ancestral debt.
5. Expansion of credit.
6. Increase of population without corresponding increase of return from land.

7. Facilities of borrowing owing to influx of money-lenders.
8. The Limitation Law as leading to renewals on usurious terms including compound interest.
9. The revenue system of a fixed demand.

Although the indebtedness of the peasant and the landholder may be traced back to the working of well-ascertained causes, it is impossible to lay down any general rules by which the evil may be remedied. Credit is a necessity for agriculture, and no legislator has ever yet been able to devise a means which will prevent a man from borrowing. Much, however, may be done by the borrower himself to keep the evils of borrowing within bounds. It is not credit that the agriculturist really wants so much as safeguarded credit. He requires freedom to enable him to borrow for legitimate purposes and restraint to prevent him from abusing his power to borrow. But if his freedom is uncurtailed who is there to impose restraint upon him except himself. This self-restraint can only be learnt by educated men, and its direct outcome is thrift. The man who learns to deny himself the luxury of borrowing, except under most pressing need, soon learns how to deny himself a little in the day of abundance, and to lay by for the contingencies which education teaches him as likely at some time or other to supervene. But if credit is a necessity for agriculture, and a man must borrow, the next step is to provide a means whereby the thrifty prudent man may obtain what he wants at moderate interest with the least possible risk to himself. Such a means can only be found in organization. Thrift, education and organization may be claimed to be the three cardinal factors controlling the situation if the object in view is to alleviate the evils of borrowing, and to save the borrower from the temptations which the money-lender holds out to him at every turn.

Although the money-lender is justly held up to a reprobation for the usurious interest he exacts, it is as well to remember that the capital he controls could not have come into existence unless he or his ancestors had exercised thrift, and when ignorance on the part of the borrower is stated to be one of the causes which lead to his indebtedness, it is fair to assume that his ignorance is a disadvantage to him because he is dealing with a more educated man than himself. Probably, the best hated of all money-lenders is the Bunniah, and no class perhaps has been more successful in accumulating wealth and bettering its position than the Bunniah under British rule. But what a picture of perseverance is that presented of him by the traveller Tavernier who wrote more than two hundred and fifty years ago. It is worth quoting, for it shows that even in those days when education was comparatively rare, the Bunniah paid the greatest attention to the proper instruction of his children "The third class," writes Tavernier, "is that of the Banian who attach themselves to trade, some being shroffs, *i.e.*, money-changers or bankers, and the others brokers by whose agency the merchants buy and sell. The members of this caste are so subtle and skilful in trade that, as I have said elsewhere, they could give lessons to the most cunning Jews. They accustom their children at an early age to shun slothfulness, and instead of letting them go into the streets to lose their time at play, as we generally allow ours, teach them arithmetic which they learn perfectly, using for it neither pen nor counters, but the memory alone, so that in a moment they will do a sum however difficult it may be. They are always with their fathers, who instruct them in trade, and do nothing without explaining it to them at the same time. If any one gets into a rage with them, they listen with patience without replying anything, and they withdraw coldly not returning to see him for

four or, five days when they believe his rage to be over" . . . . . . Nor is the superiority his knowledge gives him over his ignorant customer the sole advantage the money-lender has from his education. It has taught him some of the advantages of co-operation, for it may safely be asserted that the commerce in which specie plays a part belongs to one of the most organized branches of industry. The way in which money-lenders, whether Jews, Marwaris or Bunniahs, work into each other's hands constantly excites remark among ignorant people who fail to grasp the elementary fact that, if they wish to meet the usurer on his own ground, they too must combine and sustain each other by mutual help.

In considering how best to make use of thrift, education and organization in combating the usurer, the claims of co-operation to have a fair trial in the matter cannot be lightly set aside. Co-operation is in its simplest form synonymous with organized self-help. Thrift is the pivot upon which the system of co-operative credit revolves. Co-operative credit banking offers no universal panacea for remedying the indebtedness of the people at large, but it claims to show prudent, thrifty persons how by combining together they may obtain benefits they could not obtain singly, benefits which should go far towards removing some of the worst evils of money-lending. The system is one which can no longer be said to be on its trial, although in its infancy; its business transactions are now counted by millions and the numbers of its clients by the hundred thousand in the continental countries in which it has taken root. Writing of the work of the Raiffeisen loan banks in Germany, Mr. Wolff observes: "And by economists and philanthropists who have ever seen them they are warmly eulogized and recommended as justifying the verselet (in German it is one) with which a writer on the subject recently headed

his pamphlet: 'The setting up of Raiffeisen associations means the pulling down of work-houses.'" M. Rostand commends as their distinguishing traits, "extreme simplicity and cheapness, non-allowance of any dividend, limitation of the district to a parish or a hamlet, the strict prohibition to touch the reserve, the support of the clergy, the common liability replacing the helpness of agricultural units, the prevailing spirit of devotion and sense of social duty." Mr. F. A. Nicholson in the preface to his report sums up the teaching of the enquiry into various systems of co-operative credit for agriculture which he has carried on under orders of the Madras Government in these words: "Find Raiffeisen!" "I have examined many systems," so writes M. Durand who has himself become a most zealous and most successful apostle of co-operative credit in France; "I have not found one which reconciles so fully the demands exacted by credit: security of operations, and the social and moral requirements of rural populations. I do not hesitate emphatically to pronounce the *Darlehnkassen* of Raiffeisen the finest creation, alike from a moral and an economic point of view, which has ever been invented for agricultural credit." To the mind of M. Rostand they conclusively settle the question whether the small agriculturist requires credit at all. It has been denied. It has been affirmed that if he had it he would abuse it. Here, says M. Rostand, is the answer!

Writing again of the Italian popular banks the same author observes: "Throughout Italy these banks have become a power for good; and if Lord Jeffrey spoke truly when he laid it down that the greatness of a nation and the happiness of its people do not depend so much upon the increase of its military strength as upon the spread of banks and the increase of banking facilities, Italy with her smaller army has no need to shrink from

comparison with her more powerful military neighbours with their mighty "nations in arms," against which she has to pit her "nations in banks." Looking at all these busy laborious hives in which not a drop of honey is allowed to run to waste, you cannot fail to realize that they represent a great and beneficent national possession, a richly yielding horn of plenty, and that, in M. Durand's words, "This magnificent network of institutions of popular credit, for which Italy is beholden to M. Luzzatti, may well excite the envy of Europe. "It is impossible," says M. Luzzatti with just pride in his presidential address of 1887, "not to acknowledge that we have delivered the small folk and the middle classes from crushing usury, that we have assisted commerce, and lastly that we have helped to cultivate throughout the fruitful tree of thrift on ground which previously appeared absolutely barren."

It may not be generally known that an attempt has lately been made to introduce co-operative banking into England and Ireland. Evidence of the working of the banks that had been started was given before the Select Committee sitting in 1898 to enquire into the practices of money-lenders. In the course of their report the Committee make the following remarks: "Your Committee has received important evidence as to the operation of co-operative banks on the Continent and in some parts of the United Kingdom. It appears that the establishment of such banks has been of great use in abolishing or largely diminishing the trade of lending money at exorbitant rates of interest to the poorer classes. Your Committee are impressed with the extreme usefulness of these institutions, and they are of opinion that they meet a real want, especially in agricultural districts. They do not, however, recommend any State intervention in connection with them at the present time." The scope for

co-operative banks is much more limited in England than elsewhere, as the field is already to a great extent occupied by the great friendly societies and especially by the building societies which find especial favour with the English working man, but in Ireland it is admitted that a great work lies before them. As some of the problems which beset the progress of the Irish agriculturist in congested districts have several features in common with Indian agricultural problems, the development of the movement in Ireland possesses exceptional interest to us in India. The effect of co-operative banking upon the Irish peasantry may be judged from the following letter, dated December 4th, 1898, from Father Hegarty, who is President of the Belmullet Society, to the Secretary of the Organization Society: "The Belmullet Agricultural Credit Society was established for the improvement of a very poor and socially backward people, and it has to a great extent to depend on the care and management such a people can give. It is, no doubt, small and humble, but still vigorous and healthy, and daily giving ample proof of the great good people's banks can be to poor agricultural communities. During the eighteen months of its existence its funds have crept up to £105, all of which is borrowed. Out of this sum it has managed to distribute loans to the amount of £260. These range from £2 to £10 and average nearly £4. They have been made in accordance with the nature of each case, sometimes repayable in instalments, sometimes in one sum. No one has been made for a longer period than twelve months. Most of the members have had their second loan, it being thought best to demonstrate in the beginning, to a comparative few, the principles which underlie the successful working of people's banks. The system of cautiously selecting the persons admitted to membership and of making loans to them for objects of a highly produc-

tive nature has proved eminently satisfactory, both from an educational and a monetary point of view. It is developing prudence and foresight among a people hitherto not much guided, in money matters, by these virtues; and at the same time making a substantial return to the bank and its members. The former had a profit on last year's transactions of £1-12-10, a relatively big sum, time and capital considered, when the margin for it is the difference between the 4 per cent. paid to depositors and the 6 per cent. exacted from borrowers. But it is not the object of people's banks to gather from their members more interest than is necessary to secure themselves an assured existence. They exist for the good of their borrowers. The Belmullet Bank clearly does; for it has enabled its members to make, one with another, 60 per cent. per annum on all the loans repaid, whilst not a few were fortunate enough to reap double this gain. It may be asked, do the borrowers show their appreciation of these advantages by punctuality in repaying? Yes, and to a remarkable extent. All the members are loud in their praise of the little bank; and their neighbours are anxiously looking forward to the day when they, too, will be admitted within its fold."

Assuming that the spread of co-operative banking is of the highest value in diminishing the power of the usurer, several questions at once suggest themselves when a proposal is made to introduce the system into Northern India. The three great questions which require an answer in the affirmative, before any such proposal can be taken into account, resolve themselves into a consideration of the following points: First, is there any real need for the introduction of a new system; are not existing institutions adequate enough to meet the requirements of the community? Secondly, granted the necessity of the introduction of such a system, is the system in question suitable

to the state of society into which it is proposed to transplant it, is it one which under most favourable circumstances would be likely to remain an exotic, or would it be possible to acclimatize it and graft it into the national life? Thirdly, granted the necessity and suitability of the system, is there any reason to suppose that it could be worked on a practical basis; is it possible to keep it out of the region of philanthropic faddism and work it on business principles? The questions here raised deserve at least a passing notice, although any one who has studied the working of these banks and is acquainted with ordinary Indian life would, probably, have no hesitation in answering them offhand in the affirmative.

Mention has already been made of the need of a further extension of banking institutions for the diffusion of credit among the masses, but special emphasis may well be laid on that aspect of the subject presented by the prevalence of usurious rates of interest. One of the special claims put forward by continental co-operative bankers is that they have lowered the general rate of interest through the instrumentality of their loan operations. Perhaps nowhere is there greater scope for effort in the same direction than in Northern India. It is difficult to obtain any help from statistics as to what are the prevailing rates of interest in ordinary transactions, for even, if the statistics were available, their value would suffer considerable diminution from the well-known fact that the typical money-lender in the North-West Provinces rarely puts on record in documents a rate higher than 12 per cent. An innocent-looking deed representing a loan of Rs. 100 at 6½ per cent. more often than not turns out on enquiry to be the summing up of a whole series of petty transactions in which perhaps a total of forty rupees may have changed hands at different times, the balance representing accumulated compound interest, the

sum total being put on paper as an original loan when the lender considers that his debtor's credit on personal security is approaching exhaustion, and that it would be unwise to extend him further accommodation without documentary evidence. But some idea of the popular views on the subject of the money-lender's profits may be gained from the pages of the daily Press. In December 1898, one gentleman writing to the *Pioneer* observes: "You lately published a judgment in which two of the higher Courts at Lahore reduced a money-lender's interest from 36 per cent. to 12 per cent. per annum. This 36 per cent. sinks into insignificance in comparison with the rates invariably charged. I know of many instances where Rs. 150 per cent. has been charged and paid. In one case recently a borrower received Rs. 300 only and gave a demand note for Rs. 500 bearing interest on the Rs 500 at Rs. 6-4 per cent. per mensem. These money-lenders have nearly the whole of the Railway and Government offices' European and Eurasian subordinates in their clutches. Any clerk in either of these offices can obtain money with facility on such terms as I have just instanced. On the first failure of an instalment, when the loan is on a bond, the matter is put into Court and a decree is obtained, and an attachment of salary follows. It is seldom the Court will go behind the written acknowledgment and demand proof of value having been given." In the case referred to by the writer, the Divisional Judge observed: "Seeing that the plaintiff had included six months' interest at the rate of 36 per cent. per annum in the sum of Rs. 1,500 for which the bond was executed, and that he had again charged interest on the interest included in the bond, I think the District Judge was right in reducing the rate of interest." Again, in December 1898, the *Pioneer* reports a case of forgery in which the accused was a European soldier, and in the course of his judgment Mr.

Justice Burkitt observes : "the story told by the accused had the recommendation of consistency. He declared that he was never asked for any security from an officer, and that he gave no such security. He admitted he borrowed Rs. 70 and was to repay Rs. 85 at the end of three months, which it was worth noting was interest at the rate of nearly 100 per cent. per annum." But there is no need to multiply instances. It is notorious that among the poorer classes of servants the recognized rate of interest on small loans of Rs. 5 and Rs. 10 is one anna the rupee per mensem, equivalent to 75 per cent. yearly. We doubt if even the average European borrower of good standing could get a promissory note discounted under 10 per cent. The high rates charged on good security must in some part be ascribed to the great stringency of the money market and to the difficulty of getting cheap money at the present day. But it may safely be asserted that rates of interest will always be higher than in Europe until some of the hoarded wealth of India is brought into circulation and the country learns to depend on capital raised at home instead of borrowed from abroad. The chief instrument for bringing out this hoarded wealth is the bank, and no kind of bank is likely to have better results than one which depends on thrift as its mainspring of action. The disastrous effects of high interest on enterprise are everywhere visible in the North-West. It is very common for people who have been in progressive countries to complain that if such and such a town had been in America, for instance, it would have been covered with hotels, mansions, &c., everything for the travellers' and the residents' convenience. But how is it that a wilderness in the backwoods becomes converted in a few years into a well laid out modern town ! The result is due entirely to the facilities afforded to enterprise by banking institutions. In these provinces should any one

desire, for instance, to build himself a bungalow, he would have to pay for everything out of his own capital; it would be useless for him to think of building it on credit, for the price charged by the bank for the use of its money would probably exceed the profit that might reasonably be expected from the outlay. On completion of the building, the capital employed in its erection would remain locked up in it, for nothing could be borrowed on such an asset except at ruinous interest. The consequence is that, outside a few commercial centres, stagnation is the most marked feature in our provincial life. If enterprise is to be fostered, and if the country-side at large is to have a share in the progressive development of towns like Cawnpur and Bombay, the need of further facilities of obtaining money at a reasonable rate of interest must be considered a very real one.

Whether a system such as the co-operative one is suitable to Indian society in its present form is one upon which a great deal might be written for and against. It will suffice to state very briefly some of the reasons which give ground for hoping that this particular system has better chance than even the joint-stock system for taking root in the country. Roughly speaking, Indian society in the North-West is divisible into three sections, the European, Mahomedan and Hindu. The joint-stock banks are managed entirely by the European or Europeanized-Indian element of society. Outside the great trade centres, the Hindu and Mahommedan elements are dependent for their financial supplies upon the money-lender. The joint-stock banks are the soul of the commercial community, but they have only, to a very inappreciable extent, succeeded in attracting to their coffers the savings of the mass of the people who are agriculturists and suspicious of institutions, the working of which they can but dimly comprehend. The people have not yet learned to trust

them. There is no general objection in India to trusting money to a third person, but the general preference is to trust it to neighbours, whose actions the lender can observe and control. Most classes of Hindus, when they have acquired wealth, lend it out in their own immediate neighbourhood. The prevalence of such a spirit should, to a considerable extent, facilitate the formation of a local bank, the aims and objects of which might be intelligible to the people of the locality, and the operations of which would be subject to local supervision. The trust people would not give to a joint-stock bank some hundreds of miles away, they might reasonably be expected to give to one in their own town and under their own control. Moreover, the brotherhood, which is a distinguishing feature of co-operation, can hardly fail to appeal strongly both to the Mahommedan and Hindu mind.

Indian society in its present state, where unaffected by Western thought, may be said to be profoundly influenced by collectivism and custom, therein differing from European society, which is dominated by the forces of individualism and competition. The Hindu family is a joint one ; the co-sharing village community is based on ties of brotherhood, and the crafts and industries are organized into great guilds and corporations, which are very generally and very erroneously confused by superficial observers with a religious system of castes. The underlying idea is the same, but the great castes which existed at the time of Manu have long since given way to a far more minute sub-division, resting chiefly on a man's calling, trade or profession, as the method for determining his place in society. Hindu modes of thought and Hindu ways are often supposed to be incomprehensible to the foreigner, but a clue may be found to the labyrinth by any one who cares to study the economic history of England in the early Middle Ages. The principles most prevalent in

those times, according to Professor Thorold Rogers, were association and organization. It was first the discovery of printing, and then the discovery of America, which gave scope to the energy of the individual, and let loose the forces of competition. Both these discoveries opened up a seemingly boundless horizon to individual effort and the forces then set in motion have continued to this day. But nowadays there are evidences that the horizon is again contracting; public men like Mr. Rhodes go about saying that the world is after all a very small place, and that there is not room for every one to push and jostle in it. The inevitable reaction is beginning. Everywhere great manufacturers, who have secured their markets, are combining to form trusts in order to crush out competition and to fix their own prices, while the working men on their side are banding themselves into great trades unions with a view to securing a fair wage in preference to one determined by competition. But Hindu society has never experienced these waves of change and reaction. It is exactly in the same state as it was in five hundred years ago, and only now is it beginning to awake to the knowledge that outside of India exist other nations whose social life and modes of thought it is worth its while to study. Some of the resemblances between the early mediæval structure of English society and the present Hindu form of society are very striking. Sir Henry Maine has already pointed out the many common features possessed by the Teutonic township and its Indian counterpart, the village community. But in both cases a considerable modification in the original primitive form of society composed of these village units has subsequently been effected through the instrumentality of a foreign conquest; in the one case an influx of Normans and Anjevins, in the other an influx of Persian and Moghul adventurers being responsible for the propa-

gation of a number of foreign notions regarding land tenure, the strangers carving out for their own benefit over lordships, fiefs and baronial rights without much attention to the existing rights of the occupiers of the soil. In the early English town the crafts were organized very much on the same system as now prevails in India,—prices were governed by custom rather than competition, the son followed his father's calling, and attempts were continually being made to regulate even wages by authority. Markets were usually held at some popular shrine, where crowds of pilgrims collected on saints' days, very much as inhabitants of these provinces congregate now at the shrines of holy 'Pirs' or at any of the sacred places on the Ganges, where the gathering on account of the festival is invariably made the occasion of holding a fair. To crown all, England was in those days an agricultural country depending on agriculture for the support of its population, very much as the North-West Provinces depend now, and with about equal success, for famine was not unknown, and the average yield of wheat per acre was very nearly the same, we believe, as that which is now obtained by the Indian cultivator from his ill-manured fields. It is hardly surprising under these circumstances that a certain resemblance may be detected in the views held by people in those days, and those now advanced by the average Indian trader or farmer. It may indeed well be doubted whether the ordinary Englishman of that time—supposing it had been possible to suddenly confront him with the present-day bank—an institution, which it has required several subsequent centuries of thought and experience to perfect —would have shown greater eagerness to invest his money in it than the average native of India does at the present day. A system, which is the outcome of a line of thought foreign to all previous popular conceptions, admittedly requires time before it can make headway

among the masses. But if it is considered desirable to quicken its rate of progress, the best means to do so is by presenting the system to the public on lines which offer the least possible friction with current modes of thought. If the Hindu is accustomed to collective organization, and dislikes the competitive idea, no more suitable form of banking could be presented to him than that which lends itself to the group formation of society, rests upon mutual aid and brotherhood and strives to eliminate the worst features of competition. An ideal form of co-operative banking would be that in which each village community each guild of craftsmen, organized its own credit so as to supply its own needs out of its own thrift.

An aspect of co-operative banking which merits some little consideration is that which relates to the abolition of the dividend in certain forms of credit associations. In the case of the Raiffeisen loan associations there are no shares and consequently no dividends, the members contributing their liability only. This particular form of banking is one that deserves the attention of those members of the Mahommedan community who have scruples on the subject of taking interest. The services rendered by the members of the association being gratuitous, the only charge made being for the actual use of the money lent and all profits going into the reserve fund, there does not appear any thing in the organization which can deter the most religiously minded Mahommedan from taking part in it.

In view of the above remarks it may reasonably be urged that there is a very promising field for banking on co-operative lines in the Northern Provinces, and if the system is properly explained, the average Hindu or Mahommedan should have but little difficulty in comprehending it.

But can such a system be worked on a practical basis in this country? It is the special purpose of this little

work to indicate the way which promises the most success. Several earnest men have consistently advocated a system of Agricultural Banks for India, but the practical difficulties in the way have been considered so immense that, as is usual in India, the cry has been raised for Government aid in the matter. Government banks however desirable they may be for many reasons, cut at the root of the principles which have made co-operative banking the success it is, for they do away with self-help and its accompanying incentives to thrift. In these provinces the peasant, who has acceptable security, can always obtain loans from Government at a fair interest for specific agricultural needs and improvements. It is no part of this work to examine the working of the Takavi system for so long as the usurer flourishes, for such time there will always be room for effort of all kinds to neutralize the evils of usury. Our chief point is that in the various schemes for agricultural banks too much emphasis has been laid on the need of the agriculturist for credit. The small trader, the servant classes, the poor clerk, the impecunious lawyer, the struggling contractor, all stand in need of cheap credit as much as the cultivator. We believe that the best means of securing the diffusion of ideas is to allow them to filter down from the highest strata to the lowest. The commercial classes in the large towns are already fully alive to the advantages of the banking system, and there is no reason to doubt that the educated and commercial classes in our small towns are not equally alive to its advantages, though the majority have no present facility in sharing in them. The Banco Popolare devised by M. Luzzatti, the late Italian Minister of Treasury and Finance, meets all the requirements of a small and backward town community. When its principles have been grasped and its methods proved by demonstration to be suited to the people, there should be no difficulty in ex-

tending its influence in the surrounding country by means of affiliated branches worked on the Wollemberg system. The exact means by which it is proposed to work the combined systems will be found fully treated of in the chapter on organization. If the co-operative bank cannot succeed in a small provincial town, it seems very unlikely that it will ever succeed in a village. No doubt isolated attempts to establish a village bank, where some philanthropic proprietor takes the matter in hand, may meet with success, but if the movement is to succeed generally, we hold that it must start from the small provincial town. In the typical small head-quarters town in the back districts of these provinces there is scarcely a resident who has not an interest in land in the district. Everything that is canvassed in the town is sooner or later reflected in the district. For the rest in connection with this question it is well to bear in mind the old motto: 'Experiment is the test of truth.'

A few words remain to be added as to the plan of the work. We assume that the average reader knows nothing about the subject, for the book is written especially for the information of those to whom the matters in issue are comparatively novel. The next four chapters in the first part are accordingly devoted, one to a short historical account of the movement, and the next three to as clear an account as possible of what we understand by co-operation, by credit and by organisation. The second part, with the exception of a short chapter on granaries, is devoted chiefly to an examination of the constitution and methods of business of the bank system which is advocated for introduction into Northern India.

CHAPTER II.

Historical.

The history of co-operative banking is the history of individuals. The apostles of the movement and the term apostle is hardly a misnomer, for the men in question threw themselves heart and soul into their work, preaching on it, writing on it, and in at least one case being persecuted on account of it were Schulze Delitsch, Raiffeisen, Luzzatti and Wollemberg. But long before they arose the advantages of association on co-operative lines had been perceived by the great philosopher and warrior King Frederick the Great of Prussia. He grasped the advantages involved in joint responsibility on very much the same lines as those taken by Mr. Thomason, the well-known Lieutenant-Governor of the North-Western Provinces, when he upheld the necessity of affirming its principles in the case of the joint and undivided village community. By simple edict Frederick forced all the nobles owning land in each province of his kingdom to unite into associations, of which the members were collectively responsible for the obligations undertaken by their united body for the benefit of individual members. The institutions he founded are known as the Land Banks of Prussia, and these institutions with slight modifications have survived to this day, and have served as models for all similar institutions in other countries. The land bank does not fall within the scope of this work, but it deserves a passing notice, not only on account of its own merits, but also for the immense, if latent, possibilities an institution on similar lines may have in store for the regeneration of the landed classes of India.

The land bank, as we have already observed, was an association to which all nobles owning land in a province belonged compulsorily. They were all severally and jointly responsible for the obligations incurred by the society to the extent of their landed estates. The object of the land bank was to supply the monetary needs of its members at a reasonable rate of interest without their having to apply to outside money-lenders to whom, under ordinary circumstances, they would have to pay usurious rates of interest. No loan could be obtained from the society without the consent of the directors who were elected by the whole body of the members. The *modus operandi* when a member sought for a loan is described by Mr. Nicholson as follows :—

'The landowner presents his demand for a loan, his title-deeds are inspected, his property valued, a loan, repayable by annuity, agreed upon to one-half or two-thirds of the estimated value, and a mortgage-deed executed and registered, the bank then issues its debentures either handing them to the borrower for sale, or selling them itself and paying their proceeds to the borrower; the face-value of the debentures exactly represent the loan,—any premium due to a good market (Kursgewinn) being credited to the reserve, so that the mass of bonds issued to the public represent simply the value at any time existing of the mass of mortgage-loans granted. The mortgagor at the specified period pays into the bank the interest and amortization amount due on the loans; the bank carries the payments separately to the heads of interest and amortization, and with the accumulated masses of the latter received from its hundreds or thousands of debtors, it pays off forthwith an equivalent amount of its debentures. Thus, if a thousand loans are granted for a total of a crore of rupees for an average of forty years, the debentures—of all sorts of amounts, including many of very small value—issued to the public, will also be for a crore, and may be held by ten thousand or more persons varying in number as the paper changes hands; every six months the fixed dues which include sinking fund and interest are paid in; the sinking fund beginning perhaps at ½ per cent. or Rs. 12,500, and gradually increasing each year as the

principal is paid off, and as the charge for interest, therefore, decreases; this sum will be used by the bank in redeeming its debentures to that value, the particular debentures to be redeemed being determined by lot, or by purchasing them in open market should they fall below par. The interest paid in by the ten thousand borrowers is, of course, carried to the interest account, and the cost of administration is met by an addition of about 0·5 per cent. to the annuity, any profit being credited to the reserve.'

There is an immense field open to the land bank in India, but it would have to be somewhat modified if it were meant to prove an unmixed blessing. The great objection to its introduction in its existing form lies in the over-great facility it would afford landowners to obtain loans. The average Indian landlord would probably have no compunction in borrowing from such a bank to the full extent of his credit and would very likely be continuously employing the money so obtained in risky enterprises, such as the starting of new indigo factories or sugar refineries on his estate which might or might not turn out satisfactorily. A melancholy example of what may happen even to a Prussian landowner with a turn for speculation will be found in Gustav Freytag's admirable novel Debit and Credit, in which one of the heroes raises a loan on his estate by the help of a land bank, dabbles in mills which fail, and being unable to redeem his property is reduced to beggary. But a land bank which advanced money at moderate interest solely for the purpose of clearing off ancestral debt usually held at exorbitant rates ought to have considerable success in the North-West Provinces. The landlords of a division or district might, with advantage, combine together for the purpose of giving a helping hand to any young man coming in for an encumbered property. It is only fair that where possible a fresh start should be made when an estate changes hands. Although a man who contracts debts and hopelessly

encumbers his estates is not entitled to much consideration, it is otherwise with his successor who has had nothing to do with incurring the debts, and is entitled to considerate treatment till he shows he is not worthy of it. There can be nothing more disheartening to a young man of enterprise and ability than to find himself in possession of a fine but hopelessly encumbered estate. The traditions of his caste or race forbid him to part with it by sale, and his life is worn out in abortive attempts to keep things going and prevent the mortgagees from foreclosing. Under existing conditions, however, there is little likelihood of joint action by the landlords on behalf of their fellows, and any enterprise of this nature, unless properly managed, would be hazardous, and lead to greater evils than those it proposes to cure. Under State guidance and with limitations there is no reason why the land bank should not be as successful in Oudh or the North-West Provinces as in Prussia.

Before taking leave of the land bank it might be suggested that its method of finance is one that deserves to be copied in several Indian institutions. If, for instance, the Court of Wards is ever started on independent lines, and worked under one head and with a centralized staff, it might well imitate the debenture issues of the land bank for financing its own needs. Many of the estates taken over by the Court of Wards are heavily encumbered, and in such cases it is preferable to consolidate an estate's existing obligations into one loan obtained at fair interest from a recognized bank. If in lieu of this procedure debentures were issued on the security of the whole of the estates under the Court of Wards, and the same system with regard to their payment and to the issue of new debentures as fresh estates came under the control of the Court of Wards, were followed as described above in regard to land banks, not only would the estates be

gainers, but the public also. The estates would gain because the interest on such debentures need not be higher than 4 or 5 per cent. much less than a very heavily encumbered estate could expect to obtain from any bank, and the public would gain by having a safe and high-class investment with interest higher than that obtainable on Government paper open to them. At present trustees of charitable endowments, school exhibitions, orphanages, dispensaries, feel their efforts to make their little capital go a long way very seriously hampered by the low rate of interest now obtainable on Government stock since its conversion from 4 per cent. to $3\frac{1}{2}$ per cent. A sound debenture stock bearing 4 to 5 per cent. interest would be a boon to endowed institutions, and local people would far more willingly invest in paper secured on estates in their own district than in Government paper with its fluctuations in value brought about by speculators in towns hundreds of miles away.

The first great step forward in the modern co-operative banking movement was taken by Schulze Delitzsch, a German Magistrate. He began his work tentatively at first by starting an association for the purchase of raw material. In 1849-50 he started his first bank in his native town of Delitzsch. By 1858, thirty credit societies on similar lines had been started, and by 1868 his efforts to popularize co-operative banking in Germany had been crowned with success. The gigantic growth now reached by the movement may be gathered from the subjoined statistics which we borrow from Mr. Wolff's work on popular banks :

"There were on 31st May, 1895, 953 credit associations belonging to the veritable Schulze Delitzsch Union, which is divided into 32 sub-unions, and comprises, in addition, 454 supply associations, 14 building societies and 53 miscellaneous societies, 1,474 in all. Some of these associations, that is to say, 10 credit associations and 1 supply association, had registered themselves as

joint-stock companies, and 5 credit associations as companies *en commandite*, that is, having a small number of persons liable without limitation of their responsibility, and a large number limited up to a fixed amount. The admirably compiled annual statistical report prepared by Dr. Schenck, Chairman of the Schulze Delitzsch Union, does not say how many of the 1,047 credit societies sending in returns belong to the Schulze Delitzsch Union proper. They may, however, all be assumed to be organized on Schulze Delitzsch principles. There are now about 2,700 credit associations of this type in Germany. The 1,047 associations furnishing returns muster among them 509,723 members, that is, on an average 487 members per association. That figure remains pretty steady. The number of members per association varies from under 50 (in 14 associations) to more than 6,000 (in 2 associations), 11,436 being the maximum number with a long interval between it and the next. About half the number of associations have members' rolls ranging from 100 to 400. Of 479,353 members of associations, of whom a special census has been taken, 45,888 are shown to be women, nearly one-half of them women without an occupation; but there were 1,264 female servants and 1,022 women of the artisan class. The total of 479,353 members is shown to have been made up as follows: 31·5 per cent. (as compared with 31·3 in the foregoing year) were independent agriculturists, market gardeners, &c. (142,432 men and 8,662 women); 3 per cent. (against 3·1) salaried persons employed in agriculture, market gardening, &c. (12,974 men, 1,166 women); 3·1 per cent (no change) were manufacturers, owners of mines, and builders (14,608 men, 406 women); 26 per cent. (26·3) independent artisans (120,174 men, 4,636 women); 5·6 per cent. (5·5) factory hands, miners, journey men (25,700 men, 1,022 women); 8·7 per cent. (8·6) independent tradesmen and dealers (38,786 men, 2,983 women); ·7 per cent. (no change) shipmen and shipwomen (3,289 men, 188 women); 4·8 per cent. (no change) jobmasters, barge owners and public-house keepers (20,494 men, 1,640 women); 2·3 per cent. (2·2) postmen, railway employees, waiters, and persons employed on barges and boats (11,014 men, 134 women); ·9 per cent. (no change) commissionaires and servants (2,958 men and 1,264 women); 6 per cent (6·1) medical men, pharmaceutical chemists, teachers, artists, authors and municipal or parish officers (27,707 men, 1,194 women); and 7·4 per cent. (7·2) persons without occupation (12,899 men, 22,593 women). It will be seen that the working classes are very sparingly

represented. A special census shows that in 974 associations there were 151,094 members of the farming class. In 546 of these there were, among 261,521 members in all, 82,513 of the farming class. These had among them raised £6,982,495 in loans. The total paid-up share capital of the 1,047 associations is returned as £6,025,623 ; the accumulated reserve is £1,758,912, making up a collective capital of £7,784,035, which is £7,435 per association (£1,680 being reserve), £11 16*s.* per member. In addition to this working capital, the associations raised £22,886,726 by loan. £21,860 per association, £44 18*s.* per member. This gave the 1,047 associations an entire working capital of £30,670,761. Of every £100 working capital £19 12*s.* stood for paid-up share capital, £5 14*s.* for reserve, and £74 14*s.* for borrowed money. The 1,047 associations lent out in all £77,500,631 made up as follows :—On bills of exchange issued directly to the association £29,342,628, on bills of exchange bought directly to be discounted £15,814,418 ; altogether on bills £45,157,046 ; on current accounts £4,722,953 ; on notes of hand £27,023,583 ; on mortgages (new lending) £592,043. This makes £7,435 per association, and more in all by £850 than in the preceding year, and shows an indebtedness per debtor of £152. In addition to the £27,023,583 of cash credits or 'active' current accounts, there was a total of 'passive' current accounts (balances in hand on drawing accounts) of £26,709,603, which shows that in practice the one class nearly balances the other. These moneys represented the balances of 51,529 drawing accounts. About £950,000 more had been lent out in the year against acceptances as compared with the preceding year. The losses recorded amount in all to only £48,359, which is about 1*s.* 11*d.* per member. The management expenses figure as £323,504, which is at the rate of about 20 per cent. of the gross profits. The transactions resulted in a total net profit of £474,350, of which sum £122,293 was carried to the reserve fund, £15,371 forward to next year's account, £3,914 was employed for charitable and educational purposes, and £330,634 was paid out in dividend at the average rate of 5·19 per cent. on the capital employed. The returns record 31 liquidations and five failures. One of the failures is due to embezzlements to the amount of no less than £15,000. The return shows a smaller amount of business than some of the earlier years, which is owing to slack times, and also probably to a diminution in the number of banks in this particular union, which may be only apparent, since, as Dr. Crüger

has verbally explained to me, for some years, associations appeared in the lists which were really dead. There is, however, a rather notable increase of business, and in the number of members, as compared with 1893, and the proportion of losses keeps decreasing."

The Schulze banks are all based upon the principle of unlimited liability. Schulze's idea was that unlimited liability was necessary to strengthen the position of the bank in the eyes of the general public. It was necessary for him to gain the confidence of the public, because part of his system was to attract deposits from outsiders as well as from the bank's members. Funds were obtained in several ways. Each member on joining the bank had to subscribe a share, the amount of the share being somewhat large considering the class of the people who formed the majority of the bank's members. But it was not necessary for the whole value of the share to be paid up at once. Above all Schulze desired to foster the spirit of thrift among his members. The share could be paid up gradually in very small instalments extending over a long period. Then encouragement was given to members as well as to the general public to deposit savings in the bank by the inducement of good interest. The bank further, through the guarantee afforded by the unlimited liability system, possessed considerable powers of credit. Ample funds were obtained in this manner, so much so that Schulze had to fix a maximum for deposits. With the funds so obtained Schulze gave loans to bank members. The special feature in the loan business was that loans were usually granted for three months only. Control is exercised over the working of a Schulze bank by the members themselves. The executive staff consists usually of three persons elected by the general assembly of members. These three men are responsible for the direction of the bank's affairs, but they in turn are subjected to close supervision by a council of nine, also elected by the general assembly.

Although Schulze banks are admittedly a great success at the present day, they present several defects from a co-operative point of view. Owing to the high value of the share, they have a tendency to become restricted to certain fairly well-to-do classes of society and to drift away from the democratic ideal which is at the basis of all true co-operative effort. The desire to obtain high dividends necessarily tends to make directors eager after the pursuit of paying business, and with the extension of operations in which gain rather than safety is regarded as of paramount importance, the bank loses to a great measure the stability which should be regarded as a *sine quâ non* of co-operative banking. More than one Schulze bank has failed, and owing to its unlimited liability character has brought loss and ruin on hard-working members. On the other hand, a Schulze bank in which success has uniformly attended the efforts of the directors to obtain high profits, often exhibits a tendency to become a joint-stock concern, pure and simple, and loses its original co-operative character. A further objection which is laid against the Schulze system is that no attempt is made to supervise the operation of the loan. Once the loan is granted, a Schulze bank does not concern itself about the uses to which it may be put, and the neglect of this precaution deprives the loan of all educational value. But a pioneer institution cannot be expected to be perfect, and we shall find later on that these defects have been practically wiped out in the more finished conception of a co-operative bank embodied by M. Luzzatti in the Italian Banco Popolare.

About the same time that Schulze was starting his first bank, a simple village burgomaster, by name Raiffeisen, was in a still more humble manner striving to solve by means of co-operation the great problems of agricultural village life, poverty and usury. The beginnings of Raiffeisen's work

ought to possess special interest to us in India, for the direct incentive to his enterprise was his compassion for the sufferings of the people in a time of famine and scarcity. His first attempt to alleviate suffering took the form of a co-operative bakery association; his next was the establishment of a co-operative association for the purchase of cattle. At last, in 1849, he set up his first loan bank for the benefit of the villagers of Flammersfeld. On his transfer to Heddesdorf, in the Neuwied Union, he set up another bank in 1854. His third bank was started in 1862, and a fourth in 1868. Until 1879, progress was slow; but by 1885, there were about 245 banks in existence, and from that time forward the movement advanced steadily till 1893. The year was one of hardship and scarcity, and the great services existing banks of this type were able to render the peasantry in tiding over bad times drew all eyes on them and gave a tremendous impetus to the movement. By 1896, their number had risen to 2,000, and since then a still further increase has occurred.

Raiffeisen obviously had the system of the Land Bank in his mind's eye when he modelled his village bank. His first aim was to substitute for helpless individual units a strong associated body. He saw that the credit the individual could not command would be accorded to an association framed in such a manner as to inspire public confidence. In order to strengthen his association in this direction, he made it an essential condition of membership that candidates for admission should possess a high reputation for honesty and just dealing. As his association was based upon unlimited liability, it became the direct interest of members to exact a rigorous test of good character from candidates for membership. In order to stimulate the feeling of brotherhood in the association, he laid down the principle that each association should be

strictly local, and should confine its operations to a well-defined local area to which all members should necessarily belong. His next step was to eliminate the element of risk from all business in which the association engaged. No loans were granted to members except for well-defined objects, the underlying principle common to all of them being that the loan must be for a productive purpose. No speculations were allowed, no dividends were paid to members, no salaries were taken for directors. The principle that the association existed solely for the purpose of obtaining cheap credit for its members was thus carried to its logical conclusion, everything being subordinated to the dominant object of the society. All profits from loan operations were carried over to the reserves. Reserves in a Raiffeisen association are of two kinds, the ordinary reserve to meet the usual kind of emergencies, and the indivisible reserve. The latter reserve possesses special and important attributes and functions. Raiffeisen's idea was by means of it to build up from gradual accumulations a capital which would enable the association to ultimately dispense with the use of borrowed funds and to finance itself. To prevent its growth exciting the cupidity of members, he made it a vital condition that members should have no power to divide it by dissolving their society. When a society dissolves this reserve has either to be devoted to some local public work or to be put on trust for use when a new kindred association is formed. As profits in the absence of dividends are not of primary importance, loans can be obtained for terms of long duration repayable by equal instalments; but here again the element of risk is reduced to its minimum, for however small the instalment may be, punctuality in repayment is insisted on, and no mercy is shown to any one who fails in this respect. When one considers the skilful way in which Raiffeisen has blended together all the best human

feelings and instincts into his institutions, it is hardly surprising to learn that his banks never fail, and are among the most stable institutions of their kind.

As the banks grew in number they begai to group themselves into local unions for the purpose of affording each other mutual help and support, and these unions in their turn have combined for the purpose of founding a central bank which is especially designed with a view to affording weak local banks financial assistance on terms they could not reasonably hope to obtain in the open market. The following accounts borrowed from Mr. Wolff's work will show the magnitude of the work the central bank now performs:—

"The bank is intended as an institution only for the benefit of the Raiffeisen associations. It does absolutely no business beyond that of the union. It is intended to serve as common cash box, equalising excess and want, and facilitating common business. Since the dividend payable on capital is limited to 3½ per cent., all surplus being carried to the reserve fund, and since the business has become large, the bank can lend out to local associations at very reasonable rates, all the more so since the Imperial Bank has, in consideration of its financial strength and soundness, put it on the 'most favoured bank' footing, and agreed to discount its acceptances at 2 per cent. The Neuwied Bank is the only co-operative bank now admitted to such preferential terms. It lends out to local societies at the rate of 3¾ per cent., and allows them on deposits 3¼ per cent. up to the sum of £500, and 3⅛ per cent. beyond. Its business is so simple—I have seen it all done on the spot—that 1 per 1,000 of the turnover suffices for all expenses. The turnover has grown very considerably. In 1877 (four months only) it was £9,000. By 1880, it had risen to £56,000, by 1890, to £500,000, and by 1894, to £1,400,000. It was then decided to create provincial branch banks acting as *succursales* to the Central Bank. There are now ten such. None of these branch banks did a considerable business in 1895. But the aggregate turnover rose at once in that year to £3,000,000. In the first four months of the present year it amounted to £1,663,025. That does not by any means represent the total amount of lending and borrowing done between bank and bank in the Raiffeisen connection.

Very much business—about £10,000,000 in the year—is done between local banks without the interposition of the central institution. General Anwalt Cremer estimates that, thanks to such co-operative banking, the current rate of interest generally has been reduced by about 1 per cent., and credit has been cheapened to that extent. The Central Bank with its branches has become a veritable Little Providence to the local institutions, enabling new banks to establish themselves and grow up with a credit granted to them which places them in a position to do without other borrowed money, and to dispense even with local savings, while weak and not calculated to attract such. The Central Bank has already a strong reserve fund standing at present at something like £12,000."

Raiffeisen's work was not carried to its present successful issue without having had to encounter strong and determined opposition. Curiously enough his chief opponent was Schulze who might have been expected to have been the first to help him. But Schulze took exception to a system which by its abolition of all shares and dividends directly challenged the principles on which his own scheme rested. The differences between the two men were perhaps accentuated by the fact that Schulze's banks had liberal tendencies, while Raiffeisen, by his insistence on moral influence, enlisted in his favour the church party. The victory rested with Schulze, but it was a barren one. Parliament passed a law enforcing shares and dividends on Raiffeisen institutions, but Raiffeisen discounted the force of the enactment by making his shares of a nominal value and by voting away the whole of the dividend to the reserves. Since his death, however, a number of banks under the control of Haas, one of his former lieutenants, have grown into importance side by side with the Raiffeisen banks, and these, though otherwise modelled on the Raiffeisen principle, accept shares as part of their system. The Haas banks naturally find their chief support in the Schulze banks, to whose system they have become by this action slightly assimilated.

In Italy, the banner of co-operative banking was first raised by M. Luzzatti in 1863. Though he ultimately rose to be Italian Minister of Finance, he was then professor of political economy at Milan. His first effort towards introducing co-operative banking into Italy took the shape of a small book on the diffusion of credit. But he soon passed from theory to practice, and in 1865 he started the now famous popular bank of Milan with a capital of £28 only. The bank soon had an opportunity of showing what it was worth and what kind of men were directing its affairs. War was suddenly declared, and owing to the action of the Government in proclaiming a forced currency, a financial panic began. The directors of the popular bank came to the rescue, and restored public confidence by offering to issue bonds of small amount against security. This bold suggestion was exactly suited to the exigencies of the situation, and it gave the bank an advertisement of inestimable value for the future. In a year the bank trebled its membership, and now, after thirty-five years' existence, its members are numbered by thousands, and its business can only be reckoned in millions of pounds. Its striking and immediate success naturally gave a great impetus to the movement, and throughout Italy M. Luzzatti and his friends devoted themselves to the task of founding institutions on similar lines. By 1870, about 50 banks with a capital of 15 millions lire had been brought into existence, and now they number some 750 with a capital of 250,000,000 lire and more than half a million members. A fair idea of their dimensions of their business may be formed from the following figures for 1893 taken from Mr. Wolff's work on the subject :—

" In 1893, there were 730 banks (of this system only without counting the *casse rurali*), of which 662 sending in returns under this head showed a collective members' roll of 405,341. The average number of members per bank which varies a little from year to year stood hen at 612. The collective paid-up capital of

697 banks amounted to 89,949,527 lire, to which must be added 28,278,349 lire reserve funds, bringing up the total of capital of their own to 118,228,000 lire or £4,729,120. This capital had attracted in all 357,723,000 lire (£14,308,920) of borrowed money £8,729,840 (savings deposits), £3,646,040 deposits, on current accounts [cash balances], and £1,933,400 in long term bonds, and had enabled the banks to lend out on acceptances, current accounts, ordinary advances and otherwise 992,448,400 lire (£39,697,936). The loans were for the most part of medium amount, 20·97 per cent. in number, 19·37 per cent. in value ranging from 201 to 500 lire; 10·18 per cent. in number, 21·14 in value from 501 to 1,000 lire; 4·30 per cent. in number and 29·00 in amount from 1,001 to 5,000 lire. Accordingly close upon 70 per cent. of the money was lent in sums ranging from £8 to £200. Only ·53 per cent. in number, 13·45 per cent. in value, go beyond 5,000 lire; and 67·02 in number, 17·04 in value fall short of 200 lire. The rates of interest charged vary from 1½ per cent. to 16 per cent. But the last named extraordinary figure which M. Luzzatti condemns as 'Asiatic' occurs in the case of one bank only, a small one peculiarly situated in Sardinia. However, the rate of interest is generally higher than in Germany ranging from 6 to 8 per cent., which M. Luzzatti justifies by the high value of money prevailing in the poorer country. Against this it ought in fairness to be pointed out that some of the strongest and largest banks pay dividends of 10, 12, 14 per cent. which are, from our point of view, not at all 'co-operative.' The bad or doubtful debts made upon the 992,448,400 lire of lending are, as already stated, returned at 15,390,164 lire, 1·55 per cent., a figure more than five times larger than what occurs in ordinary years. There were 74 banks declaring a loss instead of a profit of 438,157 lire in all. The net profits realised by 694 banks (including the 74 losing ones) is returned at 6,799,855 lire (£271,994) which, upon a sum of 89,949,527 lire (representing the paid-up capital of 697 banks) would be equivalent to a return of more than 7½ per cent. Of that sum, however, only 4,827,854 lire has been distributed in dividend, 1,156,755 lire being carried to reserve, 379,738 lire being distributed among the employés, with 211,356 lire in addition carried to their provident funds, while 107,529 lire was devoted to charities."

The year to which these figures related was, Mr. Wolff states, a particularly unfortunate one. But since then a

wave of prosperity has come over banking business in Italy, and every separate banking balance sheet we have seen shows a considerable increase in funds and business since those days. In fact, the well-established co-operative banks appear to be suffering from too much money in Italy just the same as in Germany.

The fundamental difference between Luzzatti's system and that of Schulze Delitsch lies in the substitution of limited liability for unlimited liability. Luzzatti was led to make this sweeping change, because of his belief that his countrymen having no such 'economic tradition' in favour of unlimited liability as Germany possessed would never join an association based on what they would consider very risky lines. Schulze disapproved of this change, and remarked that the reason dictating it was very much the same as that which induces people to give a child a blunt knife to play with for fear lest it cut itself with it if it is sharpened. But later on he had to admit that the results justified the modification of his system. Luzzatti's next step was to do way with the high value share. In place of it he put a share of very small value never exceeding a 100 lire (£4), and generally very much less payable in instalments within ten months after it had been taken up. A member could possess more than one share, but however great the number of his shares, he could only have his one vote in the general assembly as before. The bank's administration was made absolutely democratic in tone, and all services were expected to be gratuitous. Funds were obtained from shares, from savings and from a small entrance fee exacted from each new member. The chief feature of the bank's business is the preference given to discounting bills of exchange. Luzzatti favoured this particular form of business, because a bill of exchange is generally taken to represent a productive transaction, and because of the

ease with which a portfolio of sound acceptances can be discounted. A popular bank of this type generally deals to a considerable extent in cash credits besides engaging in direct loan transactions. The spirit in which co-operation is understood by these banks is especially exemplified by the institution of the loan on honour of which we shall have a good deal to say later on.

The history of the popular banking movement in Italy should possess considerable interest to us in India. At the time Luzzatti started on his crusade the condition of Italy was very similar to that of parts of India at the present day. Everywhere the remains of a great mediæval civilisation and everywhere new ideas, new activity beginning to penetrate the darkness of the old life. The country, one of the richest on earth, but the inhabitants sunk in poverty and in the hands of the usurer. Moreover local spirit in Italy is very strong, and the chief towns all possess peculiar and distinguishing features very much as Delhi, Cawnpur and Benares differ from each other. What the country wanted was a set of local, independent banking institutions, attracting local savings and distributing them again in the same restricted area, worked in such a manner as to gain the confidence of a people naturally suspicious and shy, and administered on a basis of economy in keeping with the prevailing poverty. These wants Luzzatti supplied by his system of popular banks, all autonomous, but in touch with one another, resting on publicity of accounts and gratuitous administration as their bulwarks. Popular banks in Italy invariably post up a daily statement of their accounts for any passerby to consult, and this practice, owing to the open-air life in Italian towns, ensures as much publicity as a similar proceeding would in an Indian bazaar. The principle of gratuitous administration may be said to strike the keynote to the whole of Luzzatti's system. When one visits

Italian banks and finds in them whether housed in buildings as large as those possessed by the most powerful Indian banks, or as small as those inhabited by a sarráf in a moderate way of business, men devoting their whole time and energies without pay to the proper conduct of the bank's affairs, one cannot help feeling that herein lies the secret of the success of the Italian banks. Given half a dozen gentlemen in any Indian town willing to devote their strength and intelligence in the same way, and any similar enterprise is bound to succeed,—it cannot fail to do so when philanthropy and devotion are united with sound business principles.

Luzzatti never manifested any spirit of opposition to banks on the Raiffeisen system as did Schulze, and at an early stage in his career he made known his willingners to assist in the establishment of similar institutions in Italian villages. Nothing was done in the matter till 1883, when Dr. Leone Wollemberg came forward as the pioneer of the Raiffeisen system in Italy. His first bank he started at his native village of Loreggia, and its success soon led to the establishment of similar institutions. By 1892, the numbers of these *casse rurali* had grown to about 50, but in that year a singular development took place. Wollemberg had constituted his banks without regard to creed or religious opinion. The success of the movement attracted the attention of leading men in the Catholic Church, and they determined to obtain for the Church some of the prestige attaching to the good work of these banks and to identify themselves with ideas which after all embodied to a great extent their own teaching. The first Catholic bank was founded by Don Cerutti, the parish priest of Gambarare in Venetia. In the period between 1892 and 1897 sixty-eight new banks in Wollemberg's system were founded while no less than 779 Catholic banks came into existence. The success obtained

by the Catholic banks has thus altogether overshadowed of late years that brought about by Wollemberg's efforts. But it must be remembered that these Catholic banks are framed on Wollemberg's lines, the only difference being that the introduction of the parish priest as the presiding element has added to the moral influence exerted over its members by the society—the immense power of the Church.

Wollemberg's system is modelled very much on Raiffeisen's rules. The law being in his favour, he was able to do without shares. In his methods of business instead of granting a loan for a long period repayable in equal instalments he laid down that loans should be granted for three months only, capable of renewal for any number of times provided that the accruing interest is punctually paid at the end of each term. His funds he obtained by encouraging savings deposits among members and by outside borrowing. In this matter he received considerable assistance from the established savings banks which were only too willing to help on a movement which provided them with an excellent local investment for their surplus funds. The banks have been a great financial success, and are now federated into several distinct Unions. The Wollemberg banks are federated into a Union, which has its headquarters at Padua, while the Catholic banks are also grouped together into unions and diocesan federations, the most famous being that at Parma.

The latest development of co-operative banking has taken place in France. In the beginning of the co-operative movement there was, as has already been mentioned, considerable antagonism between the exponents of the rival systems of Schulze and Raiffeisen. With time this antagonism has lessened, for it has been seen that each system has its own special sphere, the town bank serving the needs of the small shopkeeper, the

struggling commercial man and the middle class professional man, while the village bank administered to the wants of the impecunious agriculturist. In Italy the popular banks were willing to co-operate with the humbler village institutions, and of late M. Luzzatti has declared that one is the necessary complement of the other. In the movement initiated of late years by M. Rayneri for the spread of co-operative banking in the South of France, the idea of co-operation between the two systems has been carried to its legitimate development. M. Rayneri's bank at Mentone serves as the financial centre for a group of village banks in direct relation with it. The popular bank takes the lead in fostering the establishment of small village banks in the surrounding district. It supplies the needs of commerce in the town, and by this quasi-decentralisation it is also able to contribute its surplus funds to supplying through village banks the needs of agriculture. It is this type of bank working in close alliance with village banks grouped around it that appears to be the most suitable for supplying the wants of a Northern Indian district.

For the benefit of the reader, who, without going too deeply into the subject, wishes to acquire a fairly clear idea of the main differences between the systems alluded to above, we close this chapter with a comparative table adapted from Professor Niccoli's handbook on "Co-operazione rurale."

	Credit Associations of Schulze Delitzsch (Vorschussvereine.)	*Popular Banks of Luzzatti pure type and with slight modifications.*	*Rural loan Banks (Darlehnkasservereine Raiffeisen pure type and with slight modifications (Wollemberg, Haas, etc.)*
Object.	Economic improvement of the masses without any regard to the professional calling or moral qualities of the members.	Economic improvement of the masses without any regard to the profession or calling of the members, but with a more or less pronounced tendency towards the moral improvement of the members.	Economic and moral improvement of the agricultured classes alone. Members must be proved to be upright and honourable persons.
Political and religious tendency.	Anticlerical and liberal.	None.	*In the German.*—Christian and conservative. *In the Italian.*—Wollemberg type. None. *In the Italian.*—Catholic type. Entirely clerical.
Area of operations.	Wide and without any well defined limits.	Wide and without any well defined limits.	Restricted and well defined; by rule the area should comprise from 800 to 1,200 inhabitants.
Responsibility.	Members are all equally and jointly responsible towards the public, their liability being unlimited; towards each other they are responsible in equal proportions.	Members are liable only according to the amount of their shares, though more than one share can be held by members. The Commercial Code limits the maximum amount of shares a member can possess to 5,000 lire; but several banks have lowered this maximum in order to better equalize the position of members towards one another.	Members are all equally and jointly responsible towards the public, their liability being unlimited; towards each other they are responsible in equal proportions.

Personal holding of members, and distribution of profits and dividends.	The share held by individual members may amount to 700—800 lire, this stimulates the pursuit of dividends and tends to augment the amount of interest charged on loans; the reserve is limited to a 10 per cent. share of the annual profits.	Every member must possess at least one share. Its maximum amount is fixed at 100 lire and often reaches only 50 or 25 lire. The predominance of members holding one share only moderates the amount of dividends to the advantage of the rate of interest charged on loans. In the early years of a society more than 10 per cent. of the annual profits is usually carried to the reserve; and a percentage of the annual profits is usually devoted to charity or works of general utility.	In the original type (Raiffeisen and Wollemberg) members neither paid up nor possessed any personal share. When the share (Geschaftsantheile) was made compulsory in Germany by the law of 1889, it was limited in the village banks of pure Raiffeisen type (Neuwied Union) to a few lire, while in those of the Haas type (Offenbach Union) it rose to 12 and 15 lire, although the dividend was always kept fairly low; in the Italian Banks where a small entrance fee is obligatory, such personal payments give no right to any dividend and are carried over to the reserve or the capital which are indivisible.
Operations.	Any ordinary banking operation. No watch over the employment of the loan but attentive and careful examination of the economic capacity of members applying for loans. Loans of short duration, in Associations of pure Schulze type not longer than 3 months.	Speculative operations forbidden. Attentive and careful examination of the economic capacity of members applying for loans No watch over the employment of loans. Discount loans generally from 3 to 4 months, not more than 6. Current accounts opened for longer periods if well guaranteed.	Loans to members for agricultural objects, explicitly stated in the application for the loan. The employment of the loan kept under careful control. Duration according to the time required for attaining the productive object in view; in German banks up to twenty years for estate improvements.

CHAPTER III.

ON CO-OPERATION.

CO-OPERATION in the sense most familiar to the general public is associated with the gigantic stores which now play such an important part in everyday life in England. The co-operation embodied in these stores is that which exists between the dealer and his customer, between the agent who is engaged in distributing commodities and the person who obtains them for his own consumption. The leading principle involved in the true Co-operative Store is that, after a fair return has been made on the capital subscribed by its members, the balance of the profits should be divided among the customers in proportion to the value of their purchases. The general purpose of the store according to the authors of "Working men Co-operators," is that the business and the work done shall be done not in the interest of, nor in order to enrich one individual, or a few, but in the interest of the general body of those who are concerned, both as workers and as consumers of the ordinary necessaries of life. "The ideal," writes Professor Marshall, "which the founders of the co-operative movement had before them was that of regenerating the world by restraining the cruel force of competition and substituting for it brotherly trust and association. They saw that under the sway of competition much of men's energy is wasted in the endeavour to overreach one another. They saw the seller, whether of commodities or labour, striving to give as little and that of as poor a quality as he could. And they saw the buyer always trying to take advantage of the seller's necessity

and thus forcing the seller, and especially the seller of labour, to struggle against a reduction of price even when if the buyer were more open with him, he might see that the reduction was necessary. The 'Co-operative Faith' is rather felt than clearly expressed, but it is earnestly held by shrewd practical men. It is that these evils can be in a great measure removed by that spirit of brotherly love and openness, which though undeveloped is yet latent in man's nature. It looks forward to a time when man shall have so far progressed that there shall be no needless secrecy in business, and each one shall think of promoting the general well-being as much as of protecting his own interests." How great a success has attended the efforts of those who sought to propagate these principles is now a matter of history. The movement which made its first firm step upwards when in 1844 the twenty-eight Rochdale Pioneers collected twenty-eight pounds and started their celebrated store has now culminated into a power which has not inaptly been styled a kingdom within a kingdom. The societies now number over a thousand, their members are counted by the hundred thousand, the shares, sales and profits are expressed in figures of millions of pounds sterling. Speaking as far back as 1864, Mr. Gladstone observed: "For my part I am not ashamed to say that, if ten years ago anybody had prophesied to me the success of the co-operative system as illustrated in the towns in the north, if I had been told that labouring men would so associate together for their mutual advantage, I would have regarded the prediction as absurd. There is in my opinion no greater marvel than the manner in which these societies flourish, combined with a consideration of the soundness of the basis on which they are built."

Besides endeavouring to improve the relations between the distributor and the consumer, co-operation has also set

itself the task of "conciliating the conflicting interests of the capitalist and the worker," by forming workshops in which, according to Mr. Holyoake, the historian of the movement, labour hires capital, devises its own arrangements and works for its own hand. But here there has been very little success, the probable reason for failure being that the workmen who have attempted to grapple with the question are handicapped in their struggle against the individual employer through their want of education and deficiency in the special equipment which enables the employer of labour to watch the market and hold his own against competitors.

Another phase of co-operation is that of co-operative agriculture, in which the object is to reconcile the interest of the owners and the tillers of the soil. This particular branch of co-operative effort has hardly emerged from the experimental stage either in Europe or in America; but we hold that its counterpart has reached the very highest development in India, and that the associations known as village communities are to all intents and purposes co-operative both in form and spirit. Should this be denied, yet there are so many features in the village community identical with the principles upon which our co-operative banking associations are based, that a brief survey of the organisation of the community cannot fail to be instructive both with a view to enforce the lessons of the teaching it is sought to inculcate and to illustrate the meaning of certain of the terms that have been used in connection with this teaching. The village community especially presents a great object lesson with regard to the exact differences between the principles of limited and unlimited liability in their relation to co-operation and a comprehension of their working in village life should carry with it an equal comprehension of their effect in the Credit Association.

"The Village Communities," to quote Sir Charles Metcalf, "are little republics having nearly everything they want within themselves and almost independent of any foreign relations. They seem to last where nothing else lasts. Dynasty after dynasty tumbles down; revolution succeeds to revolution, Hindu, Patan, Mogul, Mahratta, Sikh, English are all masters in turn, but the village communities remain the same. In times of trouble, they arm and fortify themselves; a hostile enemy passes through the country, the village communities collect their cattle within the walls and let the enemy pass unprovoked. If plunder and devastation be directed against themselves, and the force employed be irresistible, they flee to friendly villages at a distance; but when the storm has passed over, they return and resume their occupations. If a country remain for a series of years the scene of continued pillage and massacre so that the villages cannot be inhabited, the scattered villagers nevertheless return whenever the power of peaceable possession revives. A generation may pass away, but succeeding generations will return. The sons will take the place of their fathers, the same site for the village, the same positions for the houses, the same houses will be re-occupied by the descendants of those who were driven out when the village was depopulated; and it is not a trifling matter that will drive them out, for they will often maintain their post through times of disturbance and convulsion and acquire strength sufficient to resist pillage and oppression with success.

This union of the village communities, each one forming a separate little state in itself, has, I conceive, contributed more than any other cause to the preservation of the people of India, through all the revolutions and changes which they have suffered. It is in a high degree conducive to their happiness and to the enjoyment of a great portion of freedom and independence."

The exact status the village community has obtained under British rule may be best understood from the following passages written by Sir Richard Temple, himself an Indian civilian of the highest eminence, in his account of James Thomason, a former Lieutenant-Governor of the North-West Provinces, and one of the few great statesmen as distinct from administrators that India has seen this century.

"He (Thomason) considered them to be bodies of proprietors, and they held in partnership their estates, composed of villages, more correctly of townships or parishes. Their peculiarity consisted in the partnership originally described in Persian phrase which he translated into English as co-parcenary, adopting apparently Blackstone's definition which indeed exactly meets the case :

'All the co-parceners together make but one heir and have but one estate between them.'

He found that the assessment of the land-tax had been made for the whole township *en bloc*, and that the engagement for paying the revenue had been concluded not with each partner individually for his share, but with the entire community for the whole estate. Thence he inferred that the responsibility for defraying the charge rested not with individual co-parceners but the co-parcenary body as a whole. This he termed 'joint responsibility,' and accordingly the community would be liable for the default of any one among its members. In other words if any sharer failed to pay his quota of the revenue, the community must pay and then take over or make other arrangements for his share. It was for the community to determine by agreement the shares, the interests and the quotas of its members in the general burden. But the Government demand was upon the community, and the liability was in common. To this plan Thomason steadfastly adhered, because it was fraught with advan-

tages not otherwise obtainable. While he exercised all his considerateness in mitigating hardships, yet difficulies must have arisen among some of the village communities in the enforcement of their joint responsibility for the default of weak brethren, so much so that by opponents the system was stigmatized as one of 'compulsory joint stockeries,' it being proverbially easy to give to any plan an unfavourable name. This went so far that in 1848 the Board of Revenue made some representation on the subject to his Government which made him pen a memorable reply. He cites *in extenso* the passage from Metcalf (given above), and then subjoins his own view in these words written in September 1848:

'Unless the joint responsibility be merely nominal, it must ordinarily be maintained. It is a principle maintained by all former Governments. It is one the justice of which the people never dispute, and it is one of which distinct traces have been left in many of the customs which prevail in the village community. It greatly promotes self-government and renders unnecessary that constant interference with the affairs of individual cultivators on the part of the Government officers which must otherwise exist, it saves them from much expense which would otherwise fall on them, and it facilitates their union for many purposes of municipal economy which could not otherwise be effected. The efforts of the prosperous and industrious members of a community will often be directed to stimulate the idle and assist the unfortunate and to give additional value to the labour of their thrifty brethren. Property being minutely divided and each proprietor clinging with the greatest tenacity to his patrimony, it would be difficult to devise a civil institution better calculated to add to the happiness and prosperity of the people.'

Respecting these arrangements he bore in mind that those co-parceners who objected to their joint responsibility, were entitled by law to escape therefrom by claiming that their shares should be partitioned off, but so attached were the co-partners in the mass to their village system that such partition was hardly ever claimed.

Further, the system of joint responsibility in the village had, he thought, one particular auvantage in this wise-

It prevented the land of any one among the brethren being sold to a stranger for default in payment of the land revenue. The sale of land by authority on any account whatever was, he knew, alien to the practice if not to the principle followed by Indian nations. Neverthe-less a civilized Western Government must needs in-roduce the sale of land for debt on plain principles of reason. If land was liable for anything, it must be so for the land revenue assessed on it, and be sold for un-paid arrears in the last resort, even though the pur-chaser might be a stranger. He, like all other Governors, had to create this law in extreme instance, failing all other means of recovering the revenue, but the trouble would be averted in the villages where joint responsibility prevailed, because there the share of the defaulting brother would be bought in by the brethren. They would pay up the amount due from him and take over his fields which would remainin the family or in the cousinhood all the same. And this process was styled the right of 'Pre-emption.'

What then is the leading characteristic of the village community! It is its brotherhood, founded on ties of blood, held together by common interest, cemented by the feelings induced by proximity. In its purest conception it is an association in which each member is jointly and severally liable for the revenue assessed on the whole community; in its subsequent development it concedes the principle of limited liability and allows the individual member to retain his privileges of membership while limiting his responsibilities; in its possible degradation where the sel-fishness of each member induces a general preference for limited liability, it comes perilously near to answering the description of a joint 'stockery,' the word so contemp-tuously used by critics in the days of Thomason.

The typical village community of the North-West Pro-vinces is the obvious outcome of the joint Hindu family.

Most village communities appear to have grown out of small settlements made by one or more families of Aryan descent, either in clearings won from the jungle or on land conquered by force from the dark skinned aboriginal tribes. There is a well known theory that the first lands to come under cultivation are those on the mountain side or at the foot of the hills, and that the latest to be brought under the sway of the tiller of the soil are the very rich ones which lie in the fertilizing proximity of great rivers, the reason being that it requires infinite more time, labour and experience to grapple with the luxuriant vegetation planted by Nature's own hand in fertile alluvial lands than it does to cultivate the more barren land on the hill side. The theory is well exemplified in the North-West Provinces. The ruins of the great cities of the Buddhist times are chiefly found at the foot of the Himalayas, and it may be surmised that, with the exception of small kingdoms founded at convenient points on the Ganges down which great waterway the Aryan invader would naturally descend when penetrating into the interior of Hindustan, the greater part of the North-West Provinces n early historic times consisted of forest and jungle. Even at so late a period as the visit of one of the Chinese pilgrims, we find from his narrative that the neighbourhood of Pryag (Allahabad) was covered with forest. In the Eastern part of the provinces the aborigines appear to have been very numerous, and to have attained a certain pitch of civilization, for the villagers are still fond of legendary stories of the struggles of their forefathers with the demon kings of ancient times, and there is very fair evidence that in pre-Aryan times a great Bhar kingdom existed in the country now comprised in the districts of Jaunpur and Azamgarh. The Bhars are still numerous in Azamgarh, but they live in a species of quasi-serfdom, and are never allowed to reside within the

village proper among the Thákur co-sharers. The great importance attached by the high castes in these parts to ceremonial, and the extremely strict rules they observe as to what low caste labourers may touch or handle in operations connected with agriculture, show that their position in the country among the aboriginal tribes cannot originally have differed much from that now occupied by the European settler in South Africa among the Hottentots and Kaffirs. If any Hindu reader is inclined to doubt the truth of the speculations as to the extent to which the North-West Provinces were till within comparatively late times covered with forest, we cannot do better than refer him to the laws of Manu who expressly enjoins that in cases of dispute as to village boundaries especial attention should be paid to the evidence of men like the huntsman and the fowler, from which it may be legitimately inferred that in Manu's time villages were surrounded by a great deal more forest than at present.

The village lands fall into three main divisions, the homestead (ábádi), the arable land (mazrua), and the waste (ghair mazrua). The settlers naturally cultivated the land round the homestead first, and so it comes that each village site is surrounded by a belt of cultivated land, beyond which again extends the waste or grazing grounds. Around the settlers ordinarily clustered a number of semi-serfs, the descendants of whom now supply the ranks of the agricultural labourer. Two classes of tenant are also found in the village, the customary tenant who, from various causes, either because he is the descendant of a man of high caste, allowed by the community to settle within their gates, or because he is the descendant of some co-sharer who has lost his proprietary rights, or because he performs certain services to the community, is allowed to hold lands at certain preferential rates recognized by custom; and the competition tenant,

who pays rent for any surplus land the members of the community do not wish to cultivate themselves. Attached to the community and receiving either produce or allotments of land in return for their services, except where government has taken them in its service and pays them in cash out of cesses levied for the purpose, are certain servants, such as the village accountant, the watchman, the blacksmith, the carpenter, etc.

The constitution of the village community is essentially democratic. When the accountant brings his accounts before the co-sharers a man with a small share has as great a right to interrupt the proceedings as a man with a share comprising perhaps two-thirds of the village. In partition cases before a government officer, any recorded co-sharer can make his objections, and nothing is more instructive in such cases than to watch the extreme ability the accountant has to display when he wishes to convince some forty or fifty co-sharers that his view of the usage he has been testifying to, which more often than not coincides with the view held by the most influential co-sharer, is the only possible correct one. It is difficult to understand how unanimity on any subject is arrived at, but it is very seldom that a minority hold out when a reasonable compromise is suggested to them as the best way of reconciling the conflicting opinions. In most villages there is a co-sharer who is looked on as the mouthpiece of the villagers in their dealings with the outside world and is known as the headman. In villages which have fallen under the sway of some feudal overlord the position of the headman (known as mukaddam) in no way differs from that of the old English Reeve or bailiff who was such a prominent figure in the middle ages. Recently government has enforced in the North-West Provinces the rule that every village should have a headman (mukhya) for the purpose of facilitating com-

munications between the officers of government and the villagers. For revenue purposes a village is divided into mahâls, each of which comprises a separate group of undivided families. The revenue is generally collected from representative co-sharers known as lamberdars who make their own arrangements for collecting from the members of their section.

As a village increases in size, it exhibits a continually increased tendency to subdivide into separate mahâls. But in the eastern districts, especially in Azamgarh, one finds a reverse process going on and several villages included in a mahâl, and the reason of this is interesting because it is a powerful element of decay in the community. We have said that villages consist of three divisions, homestead, arable and waste. Where the pressure of population is very great, there is a tendency on the part of the community to colonize the waste. A family sets up its home on the waste land and cultivates the land in the immediate vicinity, and a repetition of this process by other families results in the bringing of the whole of the wasteland under cultivation. Each little farm in one or two generations develops into a little village and the country-side becomes dotted with small hamlets in striking contrast to the self contained and strongly defensive looking villages that one is accustomed to see on the Rajputana side of the Provinces. With the absorption of the common wasteland and the creation of new homesteads within the old village boundaries, the ties that bind the co-sharer to the community are considerably weakened. His desire to obtain partition increases, and if such partition takes place on a general scale the break-up of the community is imminent, and a step forward is made towards peasant proprietorship.

It is curious to note that a wealthy and successful village community, exactly like a wealthy co-operative

trade or credit association, has a certain tendency to degenerate into a joint-stock society when its profits are large. High dividends are a great temptation to the co-operative society to abandon its philanthropic ideals and appropriate for its existing members the whole of the profits; and similarly, we venture to assert, that the great rise in the value of land brings about an appreciable decline in the spirit and aims of a village community. Where a community are in the possession of rich land with exceptional irrigation facilities, the temptation to sub-let as much land as possible to the highest bidder becomes very great. In former times, landlords competed for tenants, but this century with the increase of population and the increase in the value of land, there is competition among tenants to obtain land. With the rise of the competition tenant into prominence, and the increased value of the co-sharer's proprietary share, a corresponding influx of strangers into the community takes place, men with no particular sympathy with the other members, for the most part non-resident in the village, who buy their way into the community because the investment appears both a desirable and profitable one. The object of such men is to make as much money out of their estates as possible, and their influence which is directed principally to the safeguarding of their own interests can hardly be regarded as beneficial to the co-operative character of the community.

The salient features which the typical village community has in common with the co-operative credit association may be summed up as follows:—

1st. Its brotherhood.—In the village community the key-note of the social organisation is struck by the common brotherhood. It is the brotherhood of the co-sharers which is such a powerful factor in uniting divergent interests into the same channel for the common good.

Similarly in a credit association though the powerful ties of common blood are lacking, the shareholders are selected on the acceptance of the principle that in joining the society they must have in view not only their own immediate advantage but that of their fellow members, that they combine as brothers to work for the good of the whole body as well as for themselves individually.

2nd. Joint responsibility.—The words Mr. Thomason used in emphasizing the utility of this particular form of combination might well have been written by Raiffeisen in reference to one of his unlimited liability credit associations. "The efforts," wrote Mr. Thomason, "of the prosperous and industrious members of a community will often be directed to stimulate the idle and assist the unfortunate and to give additional value to the labour of their thrifty brethren." "Without unlimited liability," writes Mr. Wolff on the subject of co-operative credit banks, "there could not possibly be all that watchfulness and control which make up the system of Raiffeisenism and keep it safe, that 'admirable' principle as the Duke of Argyle calls it 'of strict payments and watching the loan.' You keep your members generally under control. More especially do you control your borrowers and take care to ascertain that they remain honest, thrifty, careful, deserving of credit. You watch specifically the employment of the loan, its application to its proper purpose, failing which you call it in unmercifully, otherwise there can be no success. . . . 'Semo in cento che se femo la spia un con l'altro onde x impossible che nessun fazza un bruta parte.' So explained a member of the first Raiffeisen bank formed in Italy that of Loreggia in his uncouth Venetian patois. It means: 'We are a hundred persons who watch one another like spies; it is not possible that any one of us should fail in his duty.' And all this as observed without offensiveness. Quite the reverse. All that zealous, lively,

warm and loving interest in their local association, which every observer remarks upon as a distinctive striking feature among members of the Raiffeisen loan banks, is plainly traceable to the principle of unlimited liability, which makes every one feel that he and his fellows have become 'members one of another.' Under this system an association becomes what Ettore Levi says that every genuine co-operative association should be *una famiglia onesta e laboriosa*, an honest and industrious family with a community of aims, of interests and of sympathies." It is impossible to imagine two observers starting from more distant standpoints yet arriving at substantially the same agreement as to the effects of joint responsibility on individuals than the writers of the two paragraphs compared together above. Nor is it likely that any member of a village community could fail to understand the especial advantages offered by joint responsibility in a credit association as well as in his own community. It must be remembered that the joint responsibility in both instances is after all only for a fixed and well-defined amount. The co-sharer knows that in any case his responsibility cannot extend beyond the whole of the government demand upon his community and in a Raiffeisen association, as the first business of the general assembly every year is to pass a resolution fixing a maximum amount for its borrowings and loanings during the ensuing twelve months; each member knows that in spite of his nominally unlimited liability, his responsibility cannot exceed the amount fixed upon by the general assembly as the maximum for its yearly operations. But if the villager considers the disadvantages of such a system outweigh its advantages, the village community again teaches him how to obtain similar results with a limit of liability in the great object-lesson it affords of the method whereby a co-sharer without severing his connection entirely with the

community can, through partition, divest himself of his responsibility for the obligation imposed upon the whole community for the payment of the government demand except to the extent of its incidence on his own particular share. In commercial life all joint enterprise was originally based on the principle of unlimited liability. It was only in its later developments when the working of its machinery had become more complex that joint-stock enterprise adopted the principle of limiting the liability of the shareholder to the extent of his share. But in backward and agricultural tracts, where life is simple in form and the opinion of the neighbourhood has considerable influence in regulating a man's conduct in his dealings with those around him, there is still ample scope for societies working on the unlimited liability system. In the North-West Provinces, as we have seen, joint responsibility is just as much an 'economic tradition' among the people at large as it is in Germany. It may indeed be doubted whether persons unused to business life, who have not previously been educated into the duties of association on the unlimited liability system, are likely to make the best use of the powerful weapons put into their hands by limited liability which in unskilful hands has its dangers as well as its advantages.

3rd, *its democratic character.*—In the village community nothing is more marked than the equality of the relations which exist between the co-sharers however small or however great the extent of their share in the village. Each community, says Metcalf, is a little republic. Similarly in the co-operative credit society the wealthy member is of no more importance than the poorest one. The control of the society is vested in the voting power of the members, but a rule to which strict adherence must be paid is that no member, even if he possesses more than one share, can have more than one vote. If in either case

special power was allowed any particular individual to control the affairs of the community without attention being paid to the legitimate opinion of other members, there would be an end to the advancement of the common interest which is one of the chief bonds of union.

4th, its system of public accounts.—Each village community maintains a skilled accountant known as the *patwari*, whose duty it is besides maintaining the land records of the village to keep accounts, showing the profit and loss of each co-sharer. There is no secrecy in the accounts. Every one has a very fair idea of what profit each co-sharer ought to have, and what he has obtained or what he has failed to obtain. In villages where the 'batai' system (a species of metayer) prevails, every exposition of accounts is attended with the utmost publicity, the whole body of co-sharers or their representatives often taking part evening after evening in the long arguments which frequently arise as regards the proper valuations of the crops. In the co-operative credit associations publicity of accounts is a most prominent feature. The great object of a credit society is to inspire confidence. The small co-operative bank has not usually capital enough at the start to inspire the outside public with absolute confidence in its stability. To make up for this every opportunity is taken to acquaint the public with the exact condition of the bank at each step. The town banks usually publish a daily balance sheet; while in a village bank, where transactions are not so frequent, a fortnightly balance sheet is considered absolutely necessary for the purpose of keeping both members and outsiders well informed as to the exact financial state of the bank. By this system of publicity in accounts the confidence of the public is gradually acquired. Each man is able to test for himself whether the bank is a sound and trustworthy institution. Nothing is concealed from the members. There is

no secrecy in the matter of loans, for the object sought is fair dealing and the fostering of mutual trust. As in the village community it is not thought necessary to conceal the exact amount of profit or loss any co-sharer has sustained, so in the credit society no attempt is made to involve any transaction in secrecy or to disguise the exact financial position of any member towards the society.

5th, the desirability of regulating the admission of strangers by purchase.—A fruitful source of discord in a village community is the introduction of a stranger through his purchase of a co-sharer's property. The stranger is not necessarily of the same caste as the man he supersedes; he perhaps has never been in the village except for a few hours at a time and has no common ties of brotherhood. Every man has a right to do what he likes with his own property, and it would be manifestly unfair for a co-sharer, especially in the present state of society, to have no power of alienating his rights. On the other hand much quarrelling, litigation and even rioting might be avoided if the consent of the whole body of co-sharers was made a necessarily preliminary before the transfer of any share in their village to an outsider. In a co-operative credit society strict rules prevail as regards the admission of strangers by purchase. The amount of confidence such a society may inspire in the mind of the general public depends largely on the care exercised in the selection of suitable persons as members. If any person could obtain admission to the society by mere purchase without the consent of the other members, a blow would be struck at one of the chief foundations of the credit system which demands a careful scrutiny of the character of each new member. No member is consequently allowed to sell his share without the consent of his fellow members. The rule is one from which no deviation can be allowed. The first requisite of co-operation is mutual trust, and the surest way of

destroying the feelings of mutual trust that members of a co-operative society may have towards each other is by the admission of strangers whose main object is profit and who are un-imbued with the co-operative spirit.

6th, *the desirability of guarding against the idea of individual profit.*—The chief aim of the co-sharers of a village community in ancient times was, doubtless, to obtain by combination certain advantages which they could not hope to secure for themselves singly. By holding together they were strong enough to keep themselves fairly free of robbers and enemies and to guarantee for themselves a certain amount of security in which to pursue their ordinary agricultural operations. It never could have occurred to the co-sharer in days gone by to abandon his hereditary avocation for the purpose of rack-renting his serfs or more unfortunate neighbours. Even if he had wished to do so, it would have been out of his power to gratify his wish, for tenants were few and difficult to obtain, while land was to be had in plenty. But now that the reverse is the case, how many co-sharers are likely to be found willing to subordinate the temptation of gain to the abstract principle of brotherhood! The two things together are incompatible. Once the idea of gain is allowed to obtain a footing, its ultimate predominance is inevitable, and its predominance entails the triumph of individualism over mutuality. A co-operative credit society hardly needs such an example to warn it of the dangers attending the pursuit of dividends, a course which carries with it regard for the interests of the member as an individual at the expense of the interests of the members as a community. The fate of some of the Schulze societies shows that high dividends tend to bring about the degeneration of a co-operative society into a joint-stock association. Experience teaches that the only way in which to safeguard the interests of the community

in this direction is by limiting the amount of the dividend or better still by abolishing it altogether. Profit and individualism are interchangeable terms. The desirability of eliminating profits as far as possible is apparent when it is borne in mind that where the individual is strong enough to stand alone, he should have no difficulty in obtaining a suitable reward for his efforts, but as the combination of persons into an association is for the express object of obtaining benefits which they could not obtain singly, it ought to be regarded as an inconsistency for members to seek to appropriate for themselves profits which rightly belong to the community as they were gained by the community and not by individual members.

7th, the gratuitous nature of the services rendered by the members of the community.—In the village community every co-sharer who engages in its affairs does so gratuitously. A small honorarium is sometimes given to the headman, but the sum is never more than barely sufficient to compensate him for his lost time. The book-keeping and other specialized services are carried out by paid servants of the community. In older times these payments were made on the soundest co-operative principles, for they consisted of a share in the produce, and in this manner the fortunes of its servants were bound up in those of the community. The organisation of the co-operative society is on similar lines. The members are all expected to render gratuitous services, though in large societies it is only fair where funds are available for a small compensation to be made to directors for absolute loss of time, but such a course is exceptional, and all services rendered by members should ordinarily be given gratuitously. If the book-keeping is on a scale large enough to justify the entertainment of a paid clerk, his services should be paid for out of the common fund very much the same way as a 'patwari' or a 'chowkidar' is paid.

The above remarks on the subject of the village community should help to bring into relief a few of the many striking points of contact the institution possesses in common with the co-operative banking association. Its chief interest in this connection lies in the fact that originally it was instinct with the spirit of co-operation and that the dangers which now threaten its stability are chiefly due to a deviation on the part of its co-sharers from the true co-operative ideals. For more primitive times the village community may be regarded as the most perfect conception of agricultural society that has ever been devised. It has successfully preserved intact through successive ages the best type of Hindu life. It can fairly claim to have been the chief means of enabling India alone among nations to stand forward with a practical solution of the poor law question and the maintenance of paupers by the State. Its break up and disappearance from the field would be the greatest economic revolution in Indian history, and by many would be regarded as a calamity fraught with the gravest perils to the national life and character. Yet it is admitted on all sides that the village community is no longer in the ideal state of ancient times, and that various causes are tending towards its decay and that too at an accelerated rate in many parts of the country. Belonging as it does to a more primitive state of society than that now existing in the rest of India, the only way to prevent it from falling into pieces when brought into contact with more highly organized societies than its own is to modernize it, as far as is compatible with the principles upon which it rests. The greatest deficiency under which the village community labours at present is an organized system of credit. The chief feature of the village community in all times, and one that makes the greatest impression on the outside observer, has been, and is still, to a certain extent, its capacity for standing

alone and supplying its own wants without recourse to extraneous support. Its power to occupy this independent position depended largely on the small number of its dealings with the outside world. In the typical community, no allowance is made for the possibility of traffic on a large scale, and no provision has consequently been made for any machinery to meet the ordinary requirements of commerce. A community may possess, among its servants, a priest or a carpenter or a dancing girl or an accountant, but it has no one in any way qualified to perform the functions of a money-changer or a money-lender. Many of the troubles that have befallen the village community of the present day may be more or less directly ascribed to the neglect of any particular provision for the services of a banker or, in other words, to the collision between the village principle that the community is able to satisfy its own needs, and the modern tendency to complicate the dependence of individuals upon each other and to elaborate the relations existing between individuals in money matters.

In early times, when money was unknown, taxes, rents and profits were generally expressed in grain. The co-sharers, after giving up a fixed share of the produce to the king, allotted shares of the produce to their servants and divided the balance among themselves. The wants which a man could not supply by his own labour were few and far between, and such as they were, there was no difficulty in meeting them through the medium of barter. This barter was not of the kind described by English commercial economists who, as a rule, show a surprising ignorance of the actual economic conditions prevailing in their own country in the early middle ages and an equal want of knowledge of the conditions of Oriental life. It is not necessary for a man, who belongs to an agricultural community of the Indian type, when he wants to buy a cow

from a fellow co-sharer, to give in exchange a plough or a few yards of cloth or any other bulky commodity any more than it is necessary for him to use money. All he has to do is to fix the price and have the matter booked by the village accountant for settlement when the crops are harvested. Money, in fact, is no more requisite for the simple division of profits and settlement of accounts of the members of a village community than it is for the regulation of the clearing house accounts of the different banks banking with the Bank of England. The division is simply a question of book-keeping, and when the accounts have been made up by the village accountant, there is very little difficulty in balancing profit and loss accounts. In Northern India, in spite of the introduction of coins in early historic times, the practice of sharing the produce in kind has gone on in agricultural parts of the country with very little diminution. The Sikhs in this century collected revenue in kind, and the practice is one which to people long accustomed to it has many attractions. Such a system, however, can only flourish in villages which are absolutely self-contained. Once outside wants make themselves felt, a medium of exchange becomes requisite, and such a medium can only be found in money. In many villages, however, there are little or no outside wants. The villagers grow all they require for their own consumption and still go on making up their accounts in kind. Their trade with the outside world is so small that cowries and dumps of copper (Gorakhpuri pice), very similar to the little bars used in ancient Chaldaea and Egypt, still suffice to supply all the requirements of their simple commercial transactions. Money in such villages is more a commodity than a medium of exchange, and when obtained is either buried as a hoard or converted into jewelry. But the economy of such village life has been disturbed by the need of invariably furnishing the

Government revenue demand in coin at fixed periods. Although the use of money as a circulating medium may have been obviated by a well understood method of communal book-keeping, although the villager may be in the habit of making his purchases with shells and dumps of copper, his account with Government must be settled in coin of the realm. Under such circumstances a villager, though he may possess a full granary, often has to have recourse to an outside agent for financial help. This agent is generally the bunniah and, as is well known, he muddles up his cash advances with his grain advances of seed, and by the time the harvest is gathered and accounts are ready for adjustment the villager finds he has a long bill to settle in grain, the conversion of the cash advances into figures of grain being a process which the bunniah has no difficulty in turning to his own advantage. Money in such cases must be regarded as a commodity supplied by the financial agent rather than as a medium of exchange, and very dearly the agent's customer has to pay for the accommodation. How small a part money still plays in every-day life in the village can easily be gathered from a study of the accounts of any large Hindu family living in the country. The farm labourers are paid for the most part in grain, and even the household servants get most of their pay in the form of rations with a few annas thrown in as pocket-money, but bearing no proportion to the absurdly high cash wages Europeans are in the habit of paying low-caste servants. In one joint family that came under our notice, all the members of the household, some forty in number, received a daily allowance of grain, *gur*, *ghi*, salt, etc., the head of the family himself presiding every morning at the distribution, the allowance obtainable by each son, son's wife or widow being regulated by custom. Most of the articles distributed were obtained from the store-houses in which the tenants' payments in

kind were kept. All outgoings and incomings were posted daily in the account-books kept by the clerk of the estate. Each member of the family was also entitled to receive so many yards of cloth yearly, cloth apparently in former times having been paid in by the weavers settled on the estate as a feudal due, though nowadays when so many upcountry weavers have gone off to Bombay or Calcutta, zamindars have lost a good part of this source of revenue and have to get their cloth in the open market. When any member of the family was allowed to go on a journey the head of the family advanced him a certain sum from the estate's treasure, and money was also used on the occasion of marriage gifts and expenses. But this latter item was not of the importance generally ascribed to it, for if the family were in the habit of making large gifts, they were also in the habit of receiving them from other families similarly situated, and the cash expenditure and income under this head nearly balanced itself. The great cash expenditure was chiefly on account of the Government revenue, and apart from this nearly everything was expressed in grain and carried to account in figures of grain, the cash received from the tenants apart from payments in kind being allowed to accumulate as treasure, and this treasure the head of the family was careful to bury in his own house, whereby, in the course of a long life, he acquired the reputation of enormous wealth and the respect of the members of his numerous family who had no treasure and thus were unable to quarrel with him. In the North-West Provinces it is difficult to say what would happen if the coin now circulated among the villagers through the medium of opium and indigo advances were suddenly cut off. If it were not for these advances the peasant would be entirely at the mercy of the grain dealer, for his financial supplies and his state would be one more to be imagined than described. As it is, in parts of the country,

where these cash advances are made, the villager who takes them reserves them for his cash payments to his landlord or the Government, keeping his second crop for the subsistence of himself and his family,—good land in the North-West Provinces invariably bearing two crops a year.

The fact that money is not necessarily used as a medium of exchange gives a great advantage to the money-lender who deals in it as a commodity. He is always at hand ready to supply on his own terms the requisite cash, and the borrower, being very vague in his ideas as to the value of money, is prone to enter into rash and unconscionable bargains. The oppressive nature of the relations that a money-lender, having at his back the resources of a higher state of organized society, is able to set up with members of rural communities having few wants, unaccustomed to commercial transactions and not realizing the value of money, is a matter of history. Any student of the pages of Tacitus, the Roman historian, can hardly fail to be struck by his account of the troubles in Gaul brought about by the swarm of Roman money-lenders who descended on the province when the 'pax Romana' had been established there, entangling in their clutches the Gallic cultivator ignorant of the value of money, and then bringing to bear on him the whole machinery of the Roman Civil law. The difficulties felt by the Roman administrators in their endeavours to reconcile conflicting interests are very much the same as now experienced in some provinces in India. The conclusion to be drawn from an examination of the causes of these agrarian troubles is an obvious one, though it is seldom taken to heart. Given a primitive state of rural society in which money is not necessarily a medium of exchange, given a more highly organized state of society with which the primitive type is suddenly brought into contact

and to which it becomes subject, and the result is inevitable. The members of the more primitive type become desirous of participating in the attractions offered by the more highly organized type; they observe that everything in the market can be obtained for money, and ignorant of the value of money, they take it from the money-lenders who are outbidding each other in their offers of it, and sell their birthright for a mess of pottage. Once in the toils of the money-lender and when they realize the consequences of their rash borrowings repentance sets in, and they struggle against the necessity of fulfilling the bargain. No doubt, in course of time, matters right themselves, but in the period of transition, while old conditions are passing away and prior to the establishment of new ones, the struggle is a very bitter one for the borrower.

The question arises whether a great part of these evils cannot be wiped away by a suitable organisation of rural credit. We know from Sir Richard Temple that Mr. Thomason intended that land forfeited by a defaulting co-sharer should be bought in by the brethren. But we cannot regard Mr. Thomason's work as complete till some machinery is devised whereby the brethren may obtain the means of buying in the land. With an organized system of credit this means would exist. The salient characteristic of the village community is its self-centred life; but the thought which fashioned the mould of communal life had no conception of the complicated relations with the outside world brought about by the introduction of money as the measure of value. Competent observers declare that the bunniah never appears as a servant of the village community. He is an outsider, and his present rôle of money-lender is one of comparative recent date. The fact that the bunniah has no place in village life, perhaps accounts for the generally

unsympathetic attitude adopted by villagers towards him when anything befalls him. Be that as it may, the bunniah is now a necessity of village life, and must either be adopted into it or the villagers must make such arrangements as will enable them to do without his assistance. One way of affecting this arrangement appears to lie in the modernizing of the village society by grafting on to it the new growth of co-operative credit. It is not necessary for all the co-sharers to join such a society, for among co-sharers there are good, bad and indifferent men, just as there are among other classes of society. But all co-sharers who wish to live the old village life and free themselves from the clutches of the money-lender could join such a society, modelled as it is exactly on the same lines as their own village organisation and working entirely under their own control. From co-operative dealing in credit to co-operative dealing in seed and grain is but one step, and a village community adopting this organisation would then present an ideal type of co-operative life, holding the land in common for its own members, financing its needs out of the savings of its own members or on their joint credit, and purchasing in the open market for the benefit of the whole of the members, and so abolishing all the vexations of individual transactions with outsiders.

NOTE.—There are three marked phases in the Indian village. The closest form of union is that which is known as the 'Communal Zamindari village.' Under this system the land is so held that all the village co-sharers have each their proportionate share in it as common property, without any possession of, or title to, distinct portions of it, and the measure of each proprietor's interest is his share as fixed by the customary law of inheritance. The rents paid by the cultivators are thrown into a common stock, with all other profits from the village lands, and after deduction of the expenses the balance is divided among the proprietors according to their share. This corresponds to the undivided family in its purest state. The second stage is called the 'pattidaree'

village. In it the holdings are all in severalty, and each sharer manages his own portion of land. But the extent of the share is determined by ancestral right and is capable of being modified from time to time on this principle.......The third and final stage is known as the *Bhaiachari* village. It agrees with the *patteedaree* form inasmuch as each owner holds his share in severalty. But it differs from it, inasmuch as the extent of the holding is strictly defined by the amount actually held in possession. All reference to ancestral right has disappeared, and no change in the number of the co-sharers can entitle any member to have his share enlarged. His rights have become absolute instead of relative, and have ceased to be measured by any reference to the extent of the whole village and the number of those by whom it is held. This is exactly the state of a family after its members have come to a partition. (Extract from Mayne's Hindu Law and Usage.) In the North-West Provinces the *patteedaree* system is the most common one, and the term co-sharer used in the above Chapter may ordinarily be taken to refer to the *patteedar*.

CHAPTER IV.

On Credit.

Credit has been defined as a man's power of borrowing. Confidence is the essence of credit. No one is able to borrow unless he can induce the lender to repose a certain amount of confidence in him, and no one is willing to trust his money to another man unless he feels sure that he will ultimately be able to obtain repayment. Under normal conditions credit is assured when the lender has confidence in the integrity of the individual borrower as a guarantee for repayment and confidence in the power of the State to enforce the obligations incurred by the individual borrower in case the latter's integrity fails him. The chief requisite for widespread confidence is a settled Government. Where a country is administered under fair and equitable laws, where reasonable facilities exist for the lender to exact a penalty against the borrower who has abused his confidence, there the primary conditions for the free development of credit may be said to have been attained.

There are two forms of credit. There is the personal form of credit where the dealings are between man and man, for instance between the money-lender and his client, between the dealer and his customer who does not care to pay ready money, between the landlord and the tenant who does not find it convenient to pay his rent at the stipulated time and falls in arrears. And again there is the organized form of credit where the borrower has to deal with an impersonal association such as a joint-stock bank or a co-operative credit society. The organized form of credit is, of course, the later development. Its

advantages over the personal form of credit are too obvious to need enumeration. The bank has the same superiority over the money-lender as a railway train has over a bullock-cart. It enables business to be developed to a pitch which under old conditions would have been regarded as little short of miraculous. But just as the bullock-cart still has its uses and has not been altogether superseded by the railway, so there is room for the money-lender to exist side by side with the bank. Each has its own sphere of usefulness. People, however, have a right to insist that where the traffic is great enough to defray the costs of a railway, the primitive cart should be superseded by the more highly developed form of transport; and similarly, where there is a strong demand for credit facilities, it is time for the money-lender to make way for a more complex organisation. Railroads have everywhere in the North-West Provinces been brought within easy reach of the cultivator; but banks are still a luxury for the rich and the dwellers in large towns. Yet the poor man in country tracts would probably derive as great a benefit from the extension of banking facilities as he now does from the increase in transport facilities.

Although it should be sufficient for a man to inspire confidence to enable him to obtain credit, either from a money-lender or from a bank, it is necessary to remember that constituted as the world is in the present age, he is not likely to obtain a loan without paying for the accommodation afforded him. This payment is usually spoken of as interest. The rate of interest varies according to the risk the lender imagines there is in the loan and the amount of profit he wishes if possible to secure for himself. The amount of profit is to a great extent regulated by the competition of rivals in the open market, but there is very little limit to the charge that may be made for the estimated risk in the loan. In money-lending the greater

the risk, the more willing the borrower is to accede to any terms that may be asked him, for he is only too glad to get the loan at any price. High interest generally implies great risk, and consequently when a man has to pay high interest for a loan, it may be assumed that confidence in his ability to repay is small and that his credit is bad; while the reverse is the case when he is able to obtain the accommodation he requires at low terms of interest.

In India the rates of interest are very high, and this appears to be attributable to the operation of several causes rather than to any special one. We have a strong and settled form of Government so that there should be nothing to hinder the free development of credit on this score. Probably in no country in the world are the obligations of a debtor to a creditor more faithfully observed. Not only does a debtor consider it a point of honour to fulfil the obligations he has contracted, but if he dies indebted his son considers it a religious duty to pay off his father's debts, and will cheerfully devote his life to that purpose. The risk in ordinary cases is thus comparatively small. But what India does not possess is accumulated capital in a mobile form. Commercial undertakings on a large scale have consequently to rely upon foreign capital for financial support. Foreign capital is a very expensive article. People who send their money to distant countries for investment naturally expect larger returns than if they kept their money in similar investments at home. For the element of risk again enters here. There is more risk involved in employing one's money in a foreign country out of immediate reach than there is in keeping it at home, and this risk requires a compensating return. At the present moment foreign capital is especially expensive. The uncertainty attending the value of the rupee has diminished people's confidence in the stability of Indian investments. Capital has ceased to flow naturally towards

India, and can only be obtained on payment of the price that strangers consider commensurate with the risk involved. There is no more fragile thing than credit, especially national credit, and suspicion once generated in the mind of the foreign investor is difficult to remove. Credit which has taken years to build up can be destroyed in a few hours, and it is long before confidence once shaken can be restored to its pristine robustness. A high rate of interest in commercial undertakings has a direct bearing on the question of the rates of interest that may be charged in loans. The commercial man who pays a high rate for the use of foreign capital does so because he expects to be able to make a profit out of the use of it. The returns from commercial enterprise are in consequence fairly high in India. But these high returns react upon the rates charged by the country money-lender to his clients. The rate of interest charged by a money-lender is never less than he is likely to obtain by employing his capital in trade. It may be laid down as a general proposition that no one will sink his capital in money lending when he can reasonably expect to obtain an equal or higher rate of interest in any other business or undertaking. When a man can obtain ten per cent. from a sound commercial enterprise with a minimum of risk and discomfort while retaining the power of realizing his capital at very short notice, he is hardly likely to prefer sinking his money in a mortgage at the same rate of interest with its attendant difficulties of realizing the capital and the great disadvantages which hinder land investments arising from the intricacies of the Hindu and Mahommedan laws of inheritance. Country land-owners and agricultural borrowers must expect then to pay higher rates of interest for the use of money than those ruling in commercial enterprises. The remedy that at once suggests itself for the present state of affairs is

the employment of capital produced at home. But Indian capital is not forthcoming in anything like the amount requisite to meet the demand. If it were so there would be no need to import foreign capital. This lack of home-made capital lies at the root of most of the Indian economic problems of the day. If loanable capital is to be forthcoming at moderate rates of interest to meet the legitimate demands of credit, it must be sought for at home. It can only be found by inducing the people at large to entrust their savings with sound banking institutions, which from their organisation are the most suitable medium for collecting odds and ends of capital stagnating in the hands of individual owners and transforming them into a great stream ready to be turned towards any point where there is special need for it. The problem remains as to the best means of winning people over to the idea of banking their savings, and how this desirable result can best be brought about is deserving of some detailed consideration.

Although India enjoys at the present moment a strong and settled government, the distrust generated by centuries of confusion and insecurity cannot be said to have been entirely effaced from the minds of the great mass of the people. The accumulated wealth of the country is a matter of common notoriety, but the inhabitants, though in many cases saving, thrifty and prudent, have not yet acquired the habit of letting their wealth out of their sight. No doubt this feeling is due to the long periods of unrest that preceded the establishment of British rule. Even at the present day, the first instinct of the man with money is to bury it. The prevalence of this custom in the country tracts of the North-West Provinces is one that admits of no exaggeration. Ignorant people carry this feeling so far that not satisfied with merely burying their money in a conveniently safe place,

they generally choose the ground under their fireplace as the most suited for their savings bank, presumably in order to have the hiding place of their money as much under their eye as possible and to be able to assure themselves continually of its safety. In case this choice of a receptacle puzzles the unsophisticated reader, it is necessary to explain that though it is comparatively easy for an experienced thief to dig up money concealed in a hole under the earth floor or in the earth walls of a house and to refill the hole in a manner that will escape detection, it is quite the reverse when the surface to be broken up is smoke begrimed, for it is impossible to restore the discoloured plaster without betraying to the eye of the master of the house that it has been meddled with. The more educated man conscious that property is secure under British rule invests his money in jewellery and decks his wife and children with it, his preference for jewellery as an investment being due to the fact that it is portable, easily convertible and that he can always have it under his eye. When a man is speculative enough to desire to make a profit out of his savings he usually invests them in a mortgage in his immediate neighbourhood or lends his money to a neighbour within easy reach of his own house. The idea of depositing all superfluous cash in a bank and keeping in one's house only enough money for current expenses is one that cannot be said to have permeated into any but the highest strata of Indian society. The existing joint-stock banks have hardly scratched the surface as regards their capacity for acting as receivers and distributors of all the idle and waste capital in the country.

The average Indian mind being filled with the dread of losing sight of savings, if capital is to be attracted to the banks, the first step is to reconcile as far as possible the popular prejudice with the practice of banking institutions. The surest way of doing this is by *localizing*

savings. If the average man is afraid to trust his money in a bank which has its head-quarters a day's journey or more from his place of residence, it is possible that a scheme which brought a bank to his door would prove more attractive. The existing joint-stock banks could only do this by multiplying their branches, and as such banks are generally well managed, it is hardly likely they would have refrained from adopting such a course, had there appeared any likelihood of profit. In the average up-country town of a few thousand inhabitants where business is more or less stagnant all the year round, there is little prospect of a good bank finding it profitable enough to establish a branch. The alternative appears to lie in the setting up of a popular bank on a co-operative basis in which expenses being reduced to a minimum, there is little difficulty on the score of outlay, while the power of supervision over its proceedings vested in the members resident in its working area ought to attract towards it local men of education and intelligence and induce them to deposit their savings in it. The creation of capital by thrift in India is largely dependent on the initial localisation of savings. The educational value exercised by a local credit society ought to be enormous, and should do much to popularize the idea of banking savings and hoards. Any accumulation of savings in local banking institutions should inevitably bring about a general fall in interest, for home-made capital would then be available for taking the place of or competing with the foreign article.

The establishment of a co-operative credit society in any district of the North-West Provinces would probably have a very powerful immediate influence in relieving the local dearth of loanable capital. Any one familiar with mortgage transactions in India must have been struck at the very small amount of capital possessed by the professional money-lender. More often than not he is only the

agent of some great money-lender keeping behind the scenes or is working with money borrowed from a local mahajan, and his constant complaint is that his money is locked up in mortgages which he cannot readily realize. The interest in many cases being higher than the borrower can pay, the money-lender goes on adding the accumulated interest to the principal and drawing up fresh bonds to cover the arrears, and such additional advances he may think it worth his while to make, till the sum total amounts to a formidable figure, the money-lender appearing to be very rich on paper, but for the most part it is paper riches. The lender rarely cares to take proceedings against a debtor till he thinks the claim will swallow up the whole estate, for he fears to face except as a last resort the litigation that usually ensues when an estate is sold up. If the debtor were able by a timely advance from a co-operative bank to pay off the money-lender's claim before it reached hopelessly big proportions, he would not only benefit himself, but would indirectly confer a benefit on the community by increasing the capital at the money-lender's disposal, and thereby helping to bring about a fall in the rate of interest which would ensue when lenders had more money on hand for investment than there was an immediate demand for.

Although interest may be high, this does not imply that credit is difficult to obtain. Any one who cares to pay usurious rates of interest can generally command a loan. In fact one of the heaviest charges laid against money-lenders is that they endeavour to induce their victims by every means in their power to borrow and then turn on them once they have them in their net.

There are several sources of credit open to the peasant. If a co-sharer, he can get credit from Government in time of famine or failure of the harvest by the temporary suspension of his revenue payments ; if a tenant, his landlord

may allow him to fall into arrears with his rent. There is always the bunniah ready to advance him seed for his sowings and the money-lender ready to let him have a few rupees for a marriage festivity or for a law-suit. Or if he has adequate security to offer, he can obtain an advance from Government for specified productive purposes, such as the purchase of cattle or the digging of a well. All these sources of credit labour under the same disadvantage that they do not teach the borrower the value of the money which he is allowed to utilize until the lesson is ground into him by the difficulties in which he finds himself if he neglects punctual repayment. Until the average native of India is educated into a proper appreciation of the value of money, it is no service to him to multiply facilities of credit. The first requisite in any scheme for bringing credit within reach of the multitude is the introduction of safeguards which will prevent its abuse. Cheap credit in any form is a boon, but it is a double-edged weapon in the hands of uneducated persons. It is not sufficient to substitute for the individual money-lender an impersonal agency for supplying the demands for credit at a cheap rate. Provision must be made for bringing home to the borrower that if he wants credit, he must qualify himself for it by showing that he deserves it, and this object is best attained by enforcing the necessity of thrift on the part of the borrower, either before he has been trusted with a loan, or after he has obtained it. The great lesson of thrift will require a great deal of teaching in India where the soil is so fertile and nature so bountiful that the peasant, however badly off he may find himself in the present, never loses hope in the future. He knows that if his present harvest fails, the chances are that in another few months the land will again give forth its abundance. Improvidence is often laid to his charge, but the feelings that some observers

attribute to this cause may, perhaps, with equal truth, be traceable to a deeply-seated faith in the future. Hitherto the poorer classes have had little incentive to save money as they very imperfectly comprehend either its value or its uses. In former times the practice of storing grain for the use of the household must have been of great benefit in staving off hard times and inculcating habits of prudence, but nowadays, though the practice of having large grain reserves in the house is being discontinued, no general change to saving in money is observable in its place. In an age of transition like the present one a certain amount of confusion naturally exists when the old ways are being abandoned and new ways have not been definitely entered upon.

Safe credit and sound credit are the needs of India at the present moment. Sound credit, at present the monopoly of the well-to-do residents in large towns, has to be brought within the reach of the dwellers in small towns and rural tracts, to be democratized to use a favourite expression of M. Luzzatti ; and to prevent the abuse of facilities of credit brought within easy reach of the multitude, a system has to be set up which will allow of the disposition of the loan to be watched and will rely on the principles of self-help and individual efforts as the main spring of its existence. No one is fit to be given the advantages of easy credit unless he is acquainted with the value of it. This knowledge can be best acquired by those who by dint of the most strenuous self-denial have themselves contributed to the capital which is placed at their disposal.

It is hardly necessary to enumerate the various means by which credit is enabled to a great extent to obviate the use of money in money transactions. The bill of exchange, the cheque, the currency note all represent so many different devices by which credit performs

the part usually played by money. The uses of the bill of exchange, the currency note and the cheque are too well known to require any special description. But one device which was used by Scotch bankers with great success and which has been incorporated in popular banks with equal success requires some detailed accounts as it is the chief desideratum in country tracts in India. This is the cash account. In the North-West Provinces there is a general liking for a running account with the bunniahs, for the agriculturist, not having any special need of money at ordinary times, and being in the habit of settling his accounts after harvest, likes in the meantime to have recourse to his mahajan for a loan of a small sum whenever special necessity arises. No bank is likely to do much business in agricultural tracts unless it can arrange to keep these running accounts, which would probably prove in the end to be the most profitable form of business. A clear idea of the object of the cash account may be gathered from the following extract from Adam Smith's Wealth of Nations, for although the author was writing last century, his account is especially valuable as it was written at a time when the banking movement was just as much in its infancy in Scotland as it is in India at the present day :—

'The commerce of Scotland which at present is not very great (circa 1776) was still more inconsiderable when the two first banking companies were established; and those companies would have had but little trade had they confined their business to the discounting of bills of exchange. They invented, therefore, another method of issuing their promissory notes; by granting what they called cash accounts, that is, by giving credit to the extent of a certain sum (two or three thousand pounds for example) to any individual who could procure two persons of undoubted credit and good landed estate to become surety for him, that whatever money should be advanced to him within the sum for which the credit had been given, should be repaid upon demand, together with the legal interest. Credits of this kind are, I believe, commonly granted by banks and bankers in all different parts of the world. But the easy terms upon which the Scotch banking companies

accept of repayment are, so far as I know, peculiar to them and have perhaps been the principal cause, both of the great trade of those companies and of the benefit which the country has received from it.

Whoever has a credit of this kind with one of those companies and borrows a thousand pounds upon it, for example, may repay this sum piecemeal, by twenty or thirty pounds at a time, the company discounting a proportionable part of the interest of the great sum, from the day on which each of those small sums is paid in, till the whole be in this manner repaid. All merchants, therefore, and almost all men of business, find it convenient to keep such cash accounts with them, and are thereby interested to promote the trade of those companies by readily receiving their notes in all payments and by encouraging all those with whom they have any influence to do the same. The banks, when their customers apply to them for money, generally advance it to them in their own promissory notes. These the merchants pay away to the manufacturers for goods, the manufacturers to the farmers for materials and provisions, the farmers to their landlords for rent; the landlords repay them to the merchants for the conveniences and luxuries with which they supply them, and the merchants again return them to the banks, in order to balance their cash accounts or to replace what they may have borrowed of them; and thus almost the whole money business of the country is transacted by means of them. Hence the great trade of those companies.

By means of these cash accounts every merchant can, without imprudence, carry on a greater trade than he otherwise could do. If there are two merchants, one in London and the other in Edinburgh, who employ equal stocks in the same branch of trade, the Edinburgh merchant can, without imprudence, carry on a greater trade, and give employment to a greater number of people than the London merchant. The London merchant must always keep by him a considerable sum of money, either in his own coffers, or in those of his banker, who gives him no interest for it, in order to answer the demands continually coming upon him for payment of the goods which he purchases upon credit. Let the ordinary amount of this sum be supposed five hundred pounds; the value of the goods in his warehouse must always be less by five hundred pounds than it would have been had he not been obliged to keep such a sum unemployed. Let us suppose that he generally disposes of his whole stock upon hand once in the year. By being obliged to keep so great a sum unemployed, he must sell in a year five hundred pounds' worth less goods than he might otherwise have done. His annual profits must be less by all that he could have made by the sale of five hundred pounds' worth more goods, and the number of people employed in preparing his goods for the market must be less by all those that five hundred pounds' more

stock could have employed. The merchant in Edinburgh, on the other hand, keeps no money unemployed for answering such occasional demands. When they actually come upon him, he satisfies them from his cash account with the bank, and gradually replaces the sum borrowed with the money or paper which comes in with the occasional sales of his goods. With the same stock, therefore, he can without imprudence have at all times in his warehouse a larger quantity of goods than the London merchant; and can thereby both make a greater profit himself and give constant employment to a greater number of industrious people who prepare those goods for the market. Hence the great benefit which the country has derived from this trade.

The facility of discounting bills of exchange, it may be thought, indeed, gives the English merchant a conveniency equivalent to the cash accounts of the Scotch merchants. But the Scotch merchants, it must be remembered, can discount their bills of exchange as easily as the English merchants; and have besides the additional conveniency of their cash accounts.

There is no question of the immense impetus given to trade and commerce in Scotland by the cash credit system. One has only to contrast the picture disclosed by the opening words of Adam Smith's accounts above quoted with the state of Scotch commerce at the present day to realize the immense progress attained by means of well-designed modes of credit. The great good the cash account alone has wrought was recognized by a Parliamentary Committee in 1826. The passage relating to note issues in Adam Smith's account is of course not applicable to India as no private banks can issue notes. But in the Italian popular banks cash credits, even without the help of a note issue, for the popular banks have ceased to issue notes for some time past, have been found to be extremely useful, and the system promises to possess equal utility in India. Accounts in rural tracts being settled as a rule at harvest time, it would be a distinct advantage for the average cultivator to have at his disposal in the intervening period the convenience of a cash credit from which he could draw such sums as he wanted for any necessary purchase or payment. Supposing, for in-

stance, a cultivator wishes to purchase a plough bullock. It is open to him to get an advance for this object from Government always provided he can furnish adequate security for repayment. But to get *takavi* involves a journey to head-quarters and delay, and ordinarily the man who wishes to buy a bullock, unless he goes expressly to a fair for the purpose, is induced to make the purchase because he thinks he is making a bargain and sees an opportunity for getting a little profit. What the peasant wants is to have the money ready at hand whenever a favourable opportunity for doing a stroke of business may arise. Probably most purchases of cattle in the village are done in a fairly casual way. A man is driving a bullock through a village for sale, a peasant seated at his door stops him with the usual enquiries of who he is, where he is going, whether he will sell and at what price. If the bullock takes his fancy, an adjournment is made and the parties discuss terms. Say the price is fixed at fifteen rupees or at ten rupees and a calf thrown in as exchange. Our peasant goes indoors, counts his money and finds he possesses only six rupees. He then proceeds to borrow the rest, a rupee or so from a neighbour, the balance from his mahajan, and pays the seller with the sum so made up. Again, suppose the peasant is at a fair. He has ten rupees in his pocket and he sees a bullock that exactly suits him for fifteen rupees. He has no means at the moment of getting the extra five rupees except by borrowing the sum from his mahajan, for he cannot get *takavi* in a few hours. The disadvantage of dealing with the mahajan is that this gentleman is usually the village bunniah whose direct interest it is to entangle the peasant and to get a hold upon him in order to force him to sell his crops on the terms most profitable to the bunniah. Now all the peasant's difficulties could be avoided if he had obtained at the beginning of the year a cash credit, on the same secu-

rity as he would give for the use of *takavi*, with a local co-operative bank which could advance him money just as he needed it, and could by having, as the Scotch banks do, a temporary branch at every great fair in the neighbourhood put it in his power to command credit facilities to an hitherto undreamt of extent. Holding such a credit obtained on his own security and that of two sureties, say a credit of fifty rupees, he can by the rules of a popular bank draw up to nine-tenths of the amount in one or more drawings whenever he likes, one-tenth being always reserved by the bank as a guarantee for interest and other charges, and whenever he likes he can pay into his credit any sum not exceeding his drawings, interest being calculated and paid up quarterly, and the only restriction upon him being that if he fails to make any repayment within two successive quarters, the bank reserves itself the right of demanding the repayment of the whole advance and interest without regard to the term for which the cash credit was originally accorded.

Before leaving the subject of credit some attention requires to be paid to the question of famine and the relation credit bears to famine. Of late years the aspect of famine has undergone a great change in India. In former times it was possible for famine to exist in one province or even in one portion of a province and abundance to exist in tracts a short distance away. But this state of affairs in Northern India at least has been completely removed by the introduction of railroads. It is no longer possible for one district to revel in plenty, while in another the people are dying of hunger. Food in time of famine is within the reach of all who can afford to pay for it, and the price of this food is no longer affected by local scarcity, but is regulated by the market price of the food in the great distributing centres plus the cost of conveyance to the place where the scarcity exists. The

rates of railway carriage are now so low that only a very slight rise in price occurs through this item having to be charged to the account. It is only when there is a temporary shortness in the food-supply of the whole world that it is possible for any local deficiency to occur which cannot be at once supplemented from outside. Now that India possesses every facility of transport and conveyance for moving her food stocks from place to place wherever scarcity exists, famine may be said to have entered on a new phase. The organisation of transport is complete, the next step is the organisation of credit. The more a country engages in commerce, the more its wealth accumulates, the better able it is to withstand the shocks of famine. Industrial development is intimately connected with a properly organized system of credit. If it is conceded that famine is to a great extent the result of the dependence of the great mass of the population on agriculture alone, that some of the worst evils of famine may be removed by the establishment of other industries, then the first requisite for attaining the latter desirable object is by fostering the widespread institution of popular banks.

Of all industries agriculture is the most dependent on credit. The peasant who sows his field has to wait many weeks before he can hope to reap a harvest. His support in the meantime is derived from his own previously accumulated store of wealth or from the stores accumulated by others. Very few peasants have stores of their own to fall back upon. They are obliged to have recourse to others for the means of subsistence while they are waiting for the harvest. Even if prudent enough to save sufficient for the support of themselves and their families while waiting for the harvest, it seldom happens that they are wealthy enough to procure the seed they put into the ground without having recourse to some third person who

is wealthy enough to advance it to them. In no industry is there such a great element of uncertainty regarding the ultimate return as enters into that of agriculture. A man may have sown his field with care and watched the growing crop by day and night, yet the whole fruits of his labour may be destroyed in a few moments by a sudden hailstorm or flood. Or worse still he may have to pass days waiting for rain that never comes, seeing the crop which promised so well at the outset wither away slowly for want of moisture. A succession of bad harvests not only ruins the average peasant, but brings him and his family to the verge of starvation. Two years' scarcity brings famine in its train, should the harvest fail again the third year. The effects of famine are far-reaching. Apart from the strain it causes to all persons of small resources owing to the high prices of food stocks, distress is very generally felt in many trades and industries dependent on agriculturists for their best custom. When the harvest fails, the peasant cannot pay his rent, the landlord has nothing coming in, and every one deriving an income directly or indirectly from the land retrenches in order to curtail expenditure as much as possible. The diminution in the purchasing power of the immense numbers of people subsisting on the land reacts in a very short space of time on all the principal inland trades and industries.

Although credit is a vital necessity for agriculture, there is no one worse off for cheap credit than the Indian farmer. In times of plenty his needs are supplied by money-lenders who practise usury in a more or less undisguised fashion, but in times of scarcity even this poor source of credit becomes closed to him. We make bold to assert that this closing of credit is responsible for many of the privations suffered in time of famine by the better class of cultivators and co-sharers. Yet the money-lender is not to blame for the withholding of financial assistance

at such a time. He like every one else has his own interests to protect, and unless he is a public philanthropist, he cannot be expected to sacrifice them for those of his clients. We have said before that the village money-lender is generally the same person as the village bunniah. He works for the most part on credit allowed him by the bunniah in a neighbouring country town, who in turn works on credit allowed him by the merchant in one of the large cities of the province. Successive failures of harvest affect the bunniah just as much as they do the cultivator. The latter gets deeper each season in his books on account of cash and grain advances which he is unable to settle through successive failure of the crops. The merchant in the city has a margin beyond which he does not think it safe to go in allowing credit to the bunniah in the provincial town, and similarly the bunniah in the small town has his ideas of the maximum drawing account he can allow to the village bunniah. As this maximum is reached, and two years of scarcity with their accompanying bad debts soon overtake it, the village bunniah in self-defence has to contract his operations as his own credit is exhausted. Moreover the bunniah and his principals are business men which the cultivator is not, and like all prudent men they endeavour to safeguard themselves against loss by discounting all possible eventualities. Their transactions are reduced to as low a limit as they consider consistent with safety some time before actual famine may declare itself. The cultivator who, by the help of the bunniah, may have tided over two bad seasons, thus finds himself, when the crisis comes in the third year, either denied credit altogether or grudgingly allowed a small seed advance, which cannot be very well refused as, in the long run, it is the bunniah's interest to afford some little help to the man who is heavily indebted to him. No doubt the village bunniah would be willing

to afford this assistance on a much more liberal scale were he not fettered by the equal anxiety of his principal not to have too many small men over-deeply indebted to him. The usual avenue of credit is thus closed to the cultivator and, there being no alternative organized system of credit in existence to which he can have recourse, he must either go under or else look to Government for assistance. The liberal manner in which Government has aided the cultivator, in times of famine, by advances for the purchase of seed and for the digging of wells, is a matter of common knowledge ; but it is very clear that, if the cultivator possessed a proper system of credit, he would not have to invoke Government aid, except in the last extremity, and perhaps he would not find it necessary to do so at all. But a system of credit is not to be created in a day ; it requires several years' work to organize on a fitting scale and, if reliance is to be placed on an organized system of credit as a means of combating famine in the future, it should be taken in hand during the seasons of comparative plenty that usually intervene between two famines.

The chief use of credit to the cultivator, in ordinary times, ought to lie in the means it would place at his disposal for introducing labour-saving machinery and enabling him to dispense with a certain amount of field labour. The great problem of famine in the North-West Provinces is the relief of the landless labourer. It is this class which flocks to the relief works and swells the number of those in receipt of Government assistance. In times of plenty one never hears the Indian farmer complain that there are too many field labourers in his village. The contrary is the case. With two harvests a year, there is always a multiplicity of small field operations requiring attention, and the quicker these can be done, the better the farmer is pleased. When the harvest is being

gathered, the farmer is always willing to take on temporarily as many hands as offer themselves. But when the harvest fails, the farmer grudges taking on a single superfluous hand, and endeavours to get through his work with the help of his own household. In a state of famine the condition of the labouring class is a very wretched one and, unless Government started relief works, the death-rate from starvation would be an enormous one. Anything that would improve the condition of this class ought to have a very material effect in diminishing the numbers of persons coming on relief works in time of famine. The solution of the problem appears to lie in the drawing off of a certain number of these people to towns to work on other industries and replacing their services in the fields by machinery. Credit alone can work this transformation, for, without credit, it is out of the question to revive the old local industries, and without credit it is out of the power of the cultivator to obtain the use of modern labour-saving implements.

Although the Indian cultivator is probably just as experienced as the peasants of any other country, as to what crop is best suitable for the soil of his own village and what methods are most likely to produce the best results, he lags a long way behind in the use of up-to-date implements. His plough is very much the same as that used in England in the early middle ages, the true reason for the use of a wooden plough in both instances probably being the same—that iron was too expensive for common use. A little capital would enable him to obtain modern ploughs, and a revolution might be effected, in village-lands irrigated from well water, by the introduction of suitable pumping machinery. But leaving aside the question of the preparation of the ground for the crop and the raising of the crop itself, where any reformation would have to contend against a mass of ignorant prejudice, there still

remains a vast field for improvements in the methods for preparing the crops into a suitable form for human consumption, and on the necessity and urgency for a change from the old ways on this particular point there cannot be two opinions. The manufactured product has to compete in the open market with products of other nations, and if Indian products are found to be dearer than, and inferior to, foreign products, they cannot hope to keep the market. Take, for instance, the making of grain into flour. At present this is only a matter of local competition. Nearly everywhere in the North-West Provinces the process of converting the grain into flour is by the slow and painful one of hand labour. We have never seen a flour windmill in the Provinces, and in only a few instances on the canals is any use made of water-power for flour mills. But why are there not flour mills throughout the Provinces, and how do local people expect to keep the trade in their hands, when more flour mills worked by machinery are put up at great commercial centres ? It is not as if the flour that people buy in the bazaar is so popular that a cleaner form of flour would find no sale. Even poor people prefer getting flour unmixed with dust or sand to the very inferior article that through want of a choice they have to put up with. It may be said that villagers are too poor to be able to get the requisite machinery for putting up a mill in their own locality. Here co-operation comes into play. The mill, the inhabitants of a single village could not afford, comes within their reach, when the expense is divided between several villages working together in combination. Take again the case of sugar. In the western districts of the Provinces, a handy little sugarcane pressing machine is in use, but in the eastern district the old-fashioned stone *kohlu* still flourishes. In village after village one can see *kohlus* at work, and one cannot help thinking what an enor-

mous saving of labour and expense there would be if there was a good central cane-crushing mill at work every few miles. The process of sugar refining is still carried on in the old primitive unscientific manner, the system of manufacture being about on a par with that of native distillation. It is no wonder that, directly beet sugar found its way to India, the people began to evince a preference for its clean and wholesome appearance. Sugar refineries in the eastern districts formerly did a considerable export trade down to Bombay and elsewhere, but it is hopeless for them to expect to retain this trade unless they adopt improved methods of manufacture. No greater commentary on the crudity of their methods can be given than the fact that, though we once lived within a stone's throw of several of these refineries, if good clean sugar was wanted, it had to be got from Shajehanpur. It is not as if these sugar refiners were unintelligent men. The contrary is the case ; but they have had no opportunity of studying modern methods and, even if given the opportunity, it is doubtful whether any of them would have sufficient capital to set up improved machinery. Take again the case of cotton. In this special line people are beginning to bestir themselves and to perceive that there is no reason to send their cotton down to Bombay to have it sent back in the form of cloth, when they can make it up just as well themselves. But though cotton mills are increasing in number, in how many districts growing cotton are there cotton presses. The cotton presses in existence can be counted on one's fingers, and it is probable hardly one exists which does not owe its inception to persons more or less connected with Bombay. Instances, where improvements on a vast scale are possible, might easily be multiplied, but it cannot be too strongly urged that, if it is desired to industrialize Indian agriculture, the only means of attaining this object is by placing capital at the disposal of the villager. If capital is not

forthcoming, the remedy is for the villagers themselves to create it, to club together their small savings in such a form as will enable an organized system to place capital in the hands of those who can make a profitable use of it. It may be said that the villager is too conservative to countenance sweeping changes in his traditional ways and methods. Our view of the Indian peasant is that he is generally a very shrewd man and that, if he clearly sees his way to making eight annas where he formerly made one, he is singularly broadminded. The cultivation of the potato is a case in point. The potato cultivation was introduced only a few years ago, yet once the Indian market gardener discovered he could make more rupees by growing potatoes, the area under cultivation spread in the most remarkable manner. Objection may be made that the introduction of machinery comes under a different category. Yet in the western districts the iron sugarcane press has almost entirely superseded the stone *kohlu*. As it is, machinery and modern implements would probably be more widely used were it not for the difficulty of repairing them when they get out of order. People unaccustomed to a novel form of implement are apt to handle it clumsily at first and break it, and, unless there is some one at hand capable of repairing it, the new implement is discarded and a return is made to the old form. It is surprising how easily people can break even the simplest contrivance by unskilful handling, and on this point any officer employed on large relief works could testify to the way in which even a spade would get quickly broken, if it was of a kind to which the people were previously unaccustomed. The remedy lies in the introduction of technical education. If the village blacksmith is taught how to repair modern farm implements, there will be less disinclination on the part of the co-sharer to invest in them.

A second use for credit, in ordinary times, lies in the possibilities it holds out of re-vivifying local industries. In olden times the North-West Provinces was the seat of several well-known industries, especially those connected with weaving. There is no class more handicapped at the present time from want of capital than the great weaving communities. The village handloom weaver is now in a somewhat similar position to that occupied by the Lancashire handloom weaver when mills were being put up there. But in one respect he is worse off than the Lancashire man, for the latter had the choice of either carrying on a half-hearted competition or entering a local mill, while the up-country weaver, if he wishes to abandon the struggle and to enter a mill, has no local factory to go to, but has to leave his home and travel either to Bombay or Calcutta in search of work. The weavers require capital, not only to enable them to work in modern mills in the locality to which they belong, but also to enable them to advertise and find fresh markets for their goods. For there are two classes of weavers: There is the moderately skilled weaver who has to contend against the competition of machine-made goods and who can, at a pinch, find employment in a mill, and there is the highly skilled weaver who is accustomed to make the highest grade fabrics which have not yet been attempted by the mills, and whose market has fallen off through the abolition of the Courts of Delhi and Lucknow. In default of a market for his goods, the highly skilled weaver has to support life by betaking himself to the production of coarse fabrics, and still further aggravate the position of the moderately skilled weaver who has as much as he can do already to earn a living without having his ranks swollen by new recruits. Yet the highly skilled weaver's sufferings might be considerably alleviated if he were in a position to push his goods in fresh markets and advertise

them in a proper manner. In the factories at Benares which still exist, though the demand for expensive fabrics is very small, exquisitely woven brocades and kincobs can still be seen, some of them so heavy with gold and silver thread that they will almost stand upright of their own weight. The debased form of brassware made in the Benares bazaars is known to and bought by every visitor who goes there, but how few people have ever been into the weaving karkhanas. If capital was imported into some of these karkhanas, and some of the primitive arrangements superseded by more modern methods, and pains taken to turn out patterns that would attract in the European market and to push them by advertisement, there is no reason why the highly skilled weaver should not again flourish, for in his expensive productions he has few competitors even in foreign countries, and there is no machinery in India that can outvie him.

The same statement is equally true of the satin fabrics produced in Azamgarh. There is no regular demand for them and there is no attempt to create a demand. Outsiders attracted by the beauty of their appearance never know to whom to apply for them. The weavers too are not free from that singular habit among Eastern traders of never showing their best productions till they get to know their customer. The casual traveller, if he asks for satins, is shown cheap and common patterns. It is only when anyone has spent some time on the spot that they will produce specimens of their best work. What they want is capital and enterprise to make known their wares to the world at large, which is too busy nowadays to go and look for them. What is true of one village industry is equally applicable to all. Muslin was once a famous product of India, and there are still a few families in Azamgarh who make it if you care to order it. Excellent felt is made in Bahraich, but the poor men who still keep to

their hereditary trade are quite unable to make a rug unless money is first advanced to them for the purchase of the materials. A few families in Sikandrabad, in the Bulandshahr district, still produce a very pretty muslin, but it can only be had to order. Paper was once made in Muttra, and a few paper-makers there still carry on this trade in a primitive fashion. It never occurs to any one to put up a paper mill there for they have no capital. Yet in the Oudh forests there is grass in plenty suitable for paper-making, and there seems no need of carting it down to Calcutta when it could be made up on the spot or comparatively close at hand. Everywhere in the North-West Provinces any one who cares to look can find decayed industries. Of late years the North-West has begun once more to resume its position as an industrial centre; but what is needed, if new vitality is to be put in old industries, is not the congregation of a number of mills at one or two large towns but decentralisation,—a number of small factories spread over the country side. The weavers themselves would probably prefer working at small mills in the vicinity of their own homes at lower wages in preference to getting higher wages at Bombay and Calcutta, and being forced to disburse a great part of their savings in running backwards and forwards on the railway whenever any family occurrence or festival calls for their presence in their native "mohulla."

The utility of an organized system of popular credit in time of famine is one that has been abundantly demonstrated by the working of the Raiffeisen banks in Germany during a year of scarcity and by that of the popular banks in Italy during times of depression and distress. No greater object lesson of the uses of credit, when properly organized, could be afforded than by the ability of the Indian Government to support millions of people during the famine. The Government possesses no miraculous power

of creating money, though many ignorant people seem to think so; but it works either with the money obtained in taxes from the people of the country or with that obtained by its pledging the national credit. It is enabled to pledge the national credit on reasonable terms owing to the advantage it enjoys from its high organisation. The national credit is bound up with the wellbeing of the people. When a Government borrows on the national credit in the open market, the lenders have confidence in its ability to keep up regular payments of interest according to promise, but the power of the Government to do this depends on the ability of the taxpayer to pay in the tax Government has imposed upon him to enable it to meet its liabilities. The expenditure forced upon Government by famine relief is very costly and very great, and as this expenditure has to be ultimately born by the taxpayer, it is his interest to avoid such expenditure as much as possible. Government has assumed the function of organizing relief for the sufferers in time of scarcity, but it is for the people themselves to obviate the need of Government assistance as much as possible, by organizing all the remedies that lie in their power against the repetition of distress on such a large scale that individual effort cannot cope with it. The smallest efforts in this direction would immensely facilitate the task the State has taken upon itself. The State spent several millions sterling in the relief of distress during the last famine, but vast though this sum is if every district in the North-West Provinces saved annually a lakh of rupees in times of plenty, (and as each district contains on an average about a million inhabitants, it is not asking too much to expect each person to save less than two annas yearly,) and if this saving went on uninterruptedly for twenty years and fructified in the meantime at fair interest, any one with a turn for simple arithmetic can see that even such a modicum of

thrift, if spread over all the districts of the Provinces, would produce a sum amply sufficient to enable the prudent people who have saved it to safeguard themselves against the worst effects of famine, and would materially reduce the Government expenditure at another crisis.

To sum up the relations of credit to famine, we claim first, that with an organized system of credit, the village co-sharer, the better class cultivator, the struggling clerk would all be better able to stand the strain if familiarity with credit institutions had previously taught them the lesson of thrift, and if, when the real pinch came, the doors of such an institution were ready to open for them and provide means for enabling them to tide over the worst till the advent of better days. Secondly, that the position of the agriculturist would be strengthened and his staying power increased if capital was brought within his reach in sufficient amount to enable him to provide himself with modern implements and machinery. Thirdly, that the condition of the mass of the artisan and labouring classes would be improved if capital was at hand to put life into old industries and give birth to new ones. In a word, the true remedy of famine may be said to lie in the industrialization of the Provinces, which in its turn, can only be brought about by a national organisation of credit.

CHAPTER V.

ON ORGANISATION.

THE greatest lesson aught by modern history is that success in any given direction usually attends the efforts of those who have grasped with full comprehension the value of method and organisation. Organize, organize, is the cry that rings through Lord Beaconsfield's semi-political novels when he took in hand the work of constructing a new political party. It was organisation which won for Moltke the Prussian victories, and it was organisation again, patient, far-sighted and skilfully conceived, that gave such complete success to Lord Kitchener at Omdurman. It was not luck, ability, nor resources alone which enabled the Government of India to contend with and overcome the latest Indian famine. For years before all that knowledge and experience could suggest or devise had been brought to bear upon the problems of famine with a view to evolve an organisation capable of dealing at a moment's notice with every conceivable contingency that at such a critical time was likely to supervene, and when the famine did come, more widespread and violent than any known before, the machinery for combating it was complete, and all that remained to chance was the personality of the head of the different local governments for the time being upon whom devolved the responsibility of setting in motion and controlling the mechanism.

The unparalleled control that the city of London now exercises over the whole financial world is chiefly the result of the development of its organized credit during the last two centuries. The whole of this credit is centred

round the Bank of England, and a note issued by that institution recording its promise to pay on demand passes in most civilized countries as readily as gold. The growth of the present system of credit is of quite modern date. Till towards the close of the seventeenth century the financial methods in vogue approximated very closely to the practice observed to this day in the mofussal tracts of India. Banking, such as it was, was carried on by the rich city goldsmiths. People were in the habit of leaving their superfluous wealth in the hands of these men, not for the purpose of profit but with a view to obtaining greater security for its safe keeping. The goldsmiths in their turn took to depositing their surplus specie in the Tower of London, which seemed to them the most secure place to leave it in. They gave their clients receipts for their deposits, and after a time these receipts began to pass freely from hand to hand in the same way as bank notes do now. When this occurred the goldsmiths were quick to realize the advantage of keeping their specie in reserve while issuing just as many promissory notes to pay as people were willing to accept at their face value. How long this might have gone on it is impossible to say, had not Charles I given the system a rude shock by appropriating under the guise of a forced loan all the treasure lying in the Tower. But improved banking notions were already 'in the air' as the French say. The Jews, who in Europe occupy the place the Marwaris do in Hindoostan, were allowed to return to England in the next few years. Attention was given to the Italian methods of banking as practised in Genoa and Venice, and which the Dutch had copied with great success in their bank at Amsterdam. Most of the well-known private banking firms in England were founded soon after the Restoration, and the close of the seventeenth century saw the foundation of the Bank of England.

The difficulties that attended the organisation of credit in England two centuries ago were much greater than those which now confront any one attempting the task in India. Here in India banks are already established in all the large towns, and the commercial classes are much more familiar with banking methods than the merchants of England were in those days. Doubtless existing banks, as we have said before, would have had branches all over the country if the managers had been satisfied that there was any likelihood of working them at a profit. In default of any movement in this direction by the established joint stock-banks the co-operative system is obviously marked out for the occupation of the vacant field.

Many people have advocated of late years the introduction of agricultural banks into India. The great stumbling block to any of the proposed schemes appears to be the want of the necessary money to finance them at the outset. In default of funds to set the machinery moving at the outset, the promoters fall back on the idea of Government support. There would be little difficulty for Government to set up *takavi* banks in every district, but the disadvantages of such a course are clearly apparent. Government undertakings require Government officers to look after them, and as most officers already have enough work to do of their own, any Government supervision, if thorough and continuous, would have to be carried out by the agency of officers specially appointed for the purpose. This would be a very expensive process. Moreover, just as Government declines to compete with the grain-seller in time of famine on the principle laid down by Mill that Government can do more than one merchant, but not more than all the merchants put together, so it might reasonably object to setting up a system of credit designed to compete with all

other existing means of credit in the mofussal. There must be no help from Government if a co-operative bank is meant to succeed. The whole history of the movement in foreign countries shows that where left alone, if suited to the country, it flourishes but, if taken under the wing of authority, it fails to attract the sympathies of the people.

The difficulties attending on the financing of agricultural banks in a country like India can be avoided by approaching the problem in an indirect way. The motto which Luzzatti always kept in mind was "Aspirare a descendere." He did not attempt to start banks first in the village and then work his way up, but took the opposite course. A similar method might well be observed in India. Village banking should not be attempted till an endeavour has been made to cater for the needs of the classes intermediate between the wealthy commercial class and the humble cultivating class. To occupy the vacant ground immediately next that already taken up by the joint-stock bank and from that point to work gradually downwards, is the system which, if slow in its progress, is the likeliest in the long run to attain the desired end. With a strong people's bank established in the chief town of each district the difficulty of financing scattered village banks ceases. The people's bank should have no trouble in providing the funds necessary for the proper working of affiliated village credit unions which, as they grow stronger in their turn are likely to prove a source of strength rather than of weakness to the parent bank. The system indicated is one that has already passed out of the experimental stage. It is India's good fortune that it is not necessary for her to hammer out new systems, or to put to the test untried projects, visionary and otherwise. During the past fifty years experienced men in Europe have been at work, testing new schemes, improving old methods, remedying defects

and strengthening weak points. We can profit by their success and avoid the mistakes they fell into. In the present instance the problem of working a popular bank in connection with affiliated 'Caisses rurales' has already been solved by M. Rayneri in the department of the Alpes Maritimes of France. He had before him the successful examples of Luzzatti and Wollemberg as a guide, but in his own department he was a pioneer of co-operative credit and he had much greater obstacles to deal with than would be encountered in the North-West Provinces, for the idea of unlimited liability was quite foreign to the people in the rural tracts of the Alpes Maritimes, while here in the North-West every village co-sharer is familiar with the meaning of joint responsibility.

The place selected for the operations of a people's bank, that is to say, a popular bank of limited liability worked on the Luzzatti system, should in the first instance invariably be the head-quarters of a district. In the ordinary north-west district the head-quarters town, leaving aside those which are the centre of a division as well as a district, is generally a municipality with some twenty to sixty thousand inhabitants. Each of these towns possesses a large number of educated men, trained in law, business, or public affairs, and well able to undertake the management of a co-operative credit society. Most of these men are comparatively poor, for the average mofussal town is hardly a place to coin money in. The typical head-quarters town contains criminal and civil courts with a local bar numbering from forty to fifty pleaders and advocates; it is the seat of the revenue and police administration of the district and has its own high schools, hospitals, jails, treasury and railway offices. As a great part of the revenue suits of the district are disposed of at head-quarters during the hot weather, nearly every landlord connected with the district keeps his own revenue

agent or representative on the spot. The great congregation of clerks and offices in the same place, owing to the highly centralized form of district administration prevailing in the North-West Provinces, promotes the growth of a bazaar to supply the wants of the members of the different staffs and of their families, and in the bazaar, however small, there is always to be found a certain proportion of intelligent and enterprising tradesmen and merchants. In some towns there is a brisk grain or cotton or sugar trade, but in most of the small head-quarters towns there is the same aspect of sleepiness and stagnation that one usually associates with the provincial market town of the English county. But everywhere it can be noted that a steady, if slow, improvement in the standard of comfort is in progress, and that mud dwellings are giving way to brick or stone ones in the wealthier residential quarters. In large cities like Lucknow, Cawnpore, and Delhi new mills and machinery are constantly being set up, and an impetus is given to industry in these places which would cause the utmost bewilderment to persons who have not visited these cities during the last thirty years. What has been done and is being done in large places can be repeated on a small and humble scale in the provincial district towns if enterprising people are given equal facilities for commanding loanable capital as the dwellers in the great commercial cities.

In the typical head-quarters town there should be no difficulty in finding twenty or thirty intelligent and respectable citizens, lawyers, clerks, schoolmasters, tradesmen, &c., sufficiently imbued with modern ideas to understand the advantages of credit and possessing education of an order high enough to enable them to make use of the power of combination on a co-operative basis. It is not necessary at first to start with an imposing array of members nor with a great amount of subscribed capital. The humbler an undertaking of this sort is at the

outset the safer it is, and the more likely to eventually command success. The minimum capital should be about Rs. 2,000, though there is nothing to prevent it being Rs. 50,000, if more ambitious projects are entertained. It is possible to start with as low a figure as Rs. 500, for the great bank at Milan which now turns over tens of millions of pounds' business every year started with only £28, approximately Rs. 500, and of this sum Luzzatti, the founder, jocularly observed that he was the millionaire subscriber. But as it is always possible to increase capital, it is not very material whether Rs. 500 or Rs. 5,000 is the exact sum in hand at the commencement. What is of more importance is that there should be one or more members among the pioneers filled with the faith of implicit conviction in the virtues of co-operation. A society composed of some twenty or thirty representative townspeople should, once it had familiarized the townspeople with its methods, have very slight difficulty in securing the confidence of fellow-townsmen. The fact that it can afford to wait to do so is a tower of strength on its side. So long as a society does not seek after dividends and so long as the members perform all necessary services gratuitously, it is of minor importance whether it is a day or a year in winning the confidence of outsiders. Its self-centred nature enables it in the meantime to perform for its own members the objects for which it exists, and its silent and unostentatious working cannot fail in the long run to impress the outsider and make him desirous of participating in the benefits that membership affords.

The local character of a co-operative bank is a powerful factor in conciliating the opinion of local people in its favour. The publicity of its transactions inspires confidence, and in countries where such banks have been started it has always been found that the inward flow of deposits is so great as to embarass the directors to find a profitable

use for the capital they have, so to speak, created. In these provinces it is just possible that the dislike of people to banking their money would be counterbalanced by a desire to make use of a convenience for the first time brought into their midst. Few residents in banking centres perhaps realize the great difficulty there is in finding a secure place for the deposit of surplus cash in a mofussil town. Most Government officials leave their surplus pay for current monthly wants with the Government treasurer, a not very satisfactory proceeding as they get no interest for it, and the treasurer gets a good deal of unnecessary work without corresponding profit. Nothing but trouble is to be gained by sending money, which is required again in a few days, to a bank a hundred miles away, for a cheque can only be cashed with difficulty and expense in the bazaar, and the only person perhaps who would care to handle it would be the Government treasurer. Anglo-Indian banks too are so addicted to the practice of charging high rates for cashing outside cheques that it is cheaper for people of small income to avoid keeping current accounts with any particular bank and to make use of the facilities afforded by the post office for payments to tradesmen and others in different towns. These banks forget that the Government servant draws his pay in cash or notes each month, and if he wishes to bank a part of his money, he is put to the expense of remitting it to the bank every month by post, a considerable expense in India where people, as a rule, do not care to trust their money to the post except in half notes under registered cover. If existing banks wished to increase their floating deposits, they should either improve their collecting facilities or desist from their high charges for cashing outside cheques. But why should the mofussil resident beg for such favours when the remedy lies in his own hands by the establishment of local banks in each district? The non-official class are just as badly

off for a secure place of deposit of their surplus wealth. Well-to-do native gentlemen are very fond of gold and silver ingots as a means of keeping their money by them, but if our information is correct that the hoarded rupees of the country which have been brought out since the closing of the mints have been replaced to a great extent by bar silver which the country gentleman has bought as an investment attracted by its low price and which he now finds it difficult to turn back again into coin except at a heavy loss, through the rise of the rupee during the last eighteen months and the continued depreciation of silver, then it is probable that the confidence of country people in this particular form of investment will have received a very heavy shock, and the moment is propitious for inviting attention to a better means of keeping treasure at hand.

The high discount charged by the bazaar for cashing Government currency notes of value when the local treasury refuses to change them, and especially when the notes belong to other circles than the Allahabad one, discourages the thrifty native from making general use of paper in preference to coin. It was always the custom to carry coin in bulk, and the ordinary man can see no reason for abandoning the custom for a new one which he considers a dearer one. Money every day comes in from the country to the cutchery in the form of deposits by tenants on account of arrears of rent, deposits on account of bail, deposits on account of liquor shops, deposits on account of collections of Court of Wards estates, and all this money is carried in bulk for long distances by hand. Much of the inconvenience experienced in carting money about in this manner would be obviated if there was a local bank at head-quarters, and no inconvenience at all should be felt if the local bank had a network of affiliated village banks throughout the district. But the true touchstone of everything in a country

district is the land revenue, andt here can be no question that the existence of a local bank as a place of temporary deposit would be an immense boon to landowners who are getting in their rents little by little, whose estates lie scattered over the district, who find themselves unable to forward their revenue to the treasury in a lump sum and who are in want of a place for the safe custody of their money while they are getting together the required amount of their payment. Indeed there is nothing to prevent a local bank from itself undertaking the agency of handing over payments to the treasury, and such an innovation would probably be welcomed as a boon by a small but increasing class of gentlemen who have a decided objection to contact with government underlings and yet do not care to send in their payments otherwise than by hand.

If doubts be entertained as to the possibility of inducing ordinary middle-class gentlemen and traders in a small Indian town to unite together for the purpose of obtaining facilities in credit, the example of what has already been done in the Madras Presidency should go far to reassure the most sceptical on this point. In Madras there are a large number of loan societies known as Niddhis which draw their members for the most part from the official, professional and shop-keeping classes. The Niddhis follow the lines of the English building societies on which they are modelled, and dispose of a considerable amount of capital. According to Mr. Nicholson, who has treated of them in a full and exhaustive fashion in his report on Land and Agricultural Banks for Madras, there were 135 Niddhis in existence at the close of 1892 with a nominal capital of Rs. 2,33,81,933 and a paid-up capital of Rs. 78,96,519. What has been done in Madras ought to be just as feasible in Northern India with this distinction that the men who founded and controlled the Niddhis appear to have been ignorant of the true principles

of popular banking and to have aimed at following the English prototype as closely as possible, while in Northern India any one wishing to embark in a similar enterprise is not only able to obtain information as to the best systems of co-operative banking in use, but, with the fruits of the Madras experiments to serve as a guide, ought to have it in his power with very little care to avoid the pitfalls into which some of the Madras institutions have fallen.

When a limited liability co-operative bank has been set up in the head-quarters town of a district, the next step is to extend its operations. This can be done in two ways, by setting up agencies in different parts of the district and by aiding the foundation of sister banks within the district. It is understood that the area of the bank's operations is strictly limited to the district within which it is situated, and no member should be allowed to belong to the bank who is not a resident of the district. The constitution of the North-West district administration favours the setting up of agencies. Each district is divided for revenue purposes into tahsils, the revenue officer in charge being known as the 'tahsildar,' his chief duty being to collect revenue. His establishment at the chief town of his sub-division is a reproduction in miniature of the collector's establishment at the head-quarters town. At each tahsil there is a sub-treasury in dependence on the district treasury, and there are generally from five to seven tahsils in a district. Owing to the close connection of the tahsil business with that of the head-quarters town, it would be to the bank's benefit to keep an agent at each tahsil town. Agencies should also be set up at every large fair held in the district. The sight of a bank's representative appearing at a local fair and at work would do more to stimulate the spread of the banking idea among the people at large than any other contrivance that it is possible to imagine.

At no place is there a greater need of banking facilities whether for cattle dealers, horse dealers, or the numerous shop-keepers who set up temporary booths or their customers. Considering the great advance India has made of late years, it is surely time to abandon the time-honoured custom among dealers of burying their earnings in their tents, and it would save an immense amount of trouble to the public if the necessity of carrying their cash for long distances to the fair could be avoided.

The establishment of agencies at different local centres within the district should not represent finality in the bank's efforts to get in touch with people in the small towns of the district. The agency should have an educative influence on the neighbourhood and, if this bears fruit and local people in such towns express a desire to become members in any number, the agency should, at the earliest opportunity, be converted into a local self-governing sister bank affiliated to the head-quarters bank. The latter bank is always likely to remain the strongest, as it is at head-quarters that most of the wealth and intelligence of the district is centred. In co-operative banking there is no jealousy of sister institutions. There is no competition, as each bank has its own circle of members. One of the chief requisites for successful co-operation is that members should know each other well and be well known to the directors. This object can best be attained by keeping the number of members down to a manageable quantity and by encouraging the formation of sister banks directly the number of members from any particular locality is sufficient to permit of their looking after their own affairs. In Milan there are now several co-operative banks at work, regarded with favour by the great bank founded by M. Luzzatti; while at Bologna, within a few streets of the popular bank, is a smaller one founded under the auspices of the

existing popular bank. The first bank in the district should be composed of men of all classes; but it is not necessary to hold fast to this principle when extending operations. Ample scope should be given to the caste system to come into play, and, if members of any particular caste desire to form a separate credit society side by side with the parent bank, they should be encouraged to do so. The advantages of affiliation with a head-quarters bank apart from financial considerations are considerable. The weak society can find in it a model to imitate; it can send its staff there to study the methods of business in use, and it can obtain the services of the head-quarters staff for examining its registers and auditing its accounts. But, while looking to the head-quarters bank for assistance, guidance and support, each sister bank should work independently in its dealings with its own *clientèle*. The principle at stake has been summed up by M. Luzzatti in the words 'independente sempre, isolati mai' (always independent, never isolated) when speaking of the working of sister institutions.

The number of districts in the North-West Provinces and Oudh is considerable, almost approaching the number of counties in England, and, as one district is a replica of another, if it is possible to found a co-operative bank in one district, it should be equally possible to found them in others. When more than one district has started a bank at its head-quarters, such head-quarters banks should at once ally themselves into a union with a view to forming a central bank. The functions of a central bank are of the highest importance. The head-quarters bank with a few thousand rupees capital is but a weak institution when contrasted with other industrial concerns; but when ten or twenty such banks combine together to found a central bank, the latter is able to rank with any other great banking institution. Apart from the facility with which such a central

bank can finance the weaker members of the union, its position enables it to stimulate the spread of co-operative banks in a way out of the power of the small local institutions.

Hitherto we have only considered the case of the limited liability co-operative bank which has a town for the base of its operations. A popular bank of this nature should deal only in short term credit, and short term credit is what the commercial man wants, but not the agriculturist. Directly a popular bank has become strong enough, it should begin to consider what it can do for the agriculturist. Selfishness has no place in co-operation, and the aim of the true co-operative bank should be, not only to provide credit facilities for its own members, but how best to help in the diffusion of co-operative ideas among the masses outside its doors, and how to inculcate the principles of thrift among the people at large. Everybody and everything, in the ordinary north-west district, is more or less connected with land, as the districts are all agricultural and, if it is desired to propagate co-operative truths, the bank must turn its attention to the villages in which dwell the great mass of the population. Branches in the villages are out of the question for the same control cannot be exercised by members over a distant branch as over a bank situated in their midst. The self-governing principle must be recognized in the village just as much as in the town. If people in the country side are to have banking facilities, they must be prepared to accept the responsibilities attaching to them and qualify themselves for the control and supervision of their own banking business. Anyone acquainted with Indian village life must recognize that it is asking too much to expect villagers to manage a limited liability co-operative bank. Even if there were the requisite number of qualified men in any village or group of neighbouring villages, the business would be on so small a scale, and the tourn-

over so slight, that it would be hardly worth while to start such an institution. What is wanted is something far humbler, something which the least educated villager can understand, something which can take root in the village as a village institution. The requisite model is forthcoming in the Caisse rurale of Signor Wollemberg which are an adaptation from Raiffeisen's system to suit Italian needs. But some slight modifications are necessary to suit Indian circumstances. In Italy it has been found possible to start village banks in the villages; but here in India, where there is a profound ignorance of European methods, some outside influence is necessary to advise, and aid the villagers at the outset. This outside influence we propose to supply from the local popular bank. In the same way as M. Rayneri in France has made it the business of his popular bank to assist with advice anyone wishing to start a 'Caisse rurale' in his neighbourhood so the head-quarters district bank should encourage, by every means in its power, any enterprising landlord or individual who wishes to start a credit union in his village. The popular bank should, if necessary, finance the village credit society at the outset. Its risk in so doing would be very small and would, in a short time, be amply repaid directly the village bank becomes self-supporting and begins to attract its members' savings to itself. The power of a local popular bank to finance a number of such village banks is necessarily limited; but it will be found that directly they begin to increase in any number beyond the resources of the bank to finance, the corresponding addition of strength to the union of the popular town and village banks will enable a central bank to relieve the local bank of a great part of its responsibilities in this respect.

In the village credit society or village bank, as it may be called for the sake of brevity, the cardinal principle must be unlimited liability. In commercial circles the idea

of unlimited liability would not find acceptance for a moment, but the village bank is on quite a different footing. It engages in none of the ordinary operations of a bank, except giving out loans and receiving savings. Its loans are for a very long period, and its members possessing no tangible commercial securities to pledge at the outset, must be prepared to subscribe to the full extent their personal liability. The introduction of unlimited liability is further necessary as a check on the admission of members into the village bank. Under other circumstances villagers would be very eager to obtain for their friends and relatives a share of the advantages of the bank, but when members understand that any loss occasioned by a default in payment on the part of an individual member will eventually fall on themselves, they will take good care to see that no one obtains membership who is not of good repute, and they will zealously scrutinize the character of each new applicant for membership. Every co-sharer in an Indian village understands the meaning of joint and several responsibility for the Government revenue, and similarly the idea of unlimited liability for the village bank should present no difficulties to him. It would perhaps be best at the beginning, for there is no need of haste in such matters, to limit membership absolutely to village co-sharers, or in places, where the village is owned by zamindars or talukdars, to cultivators of high caste farming at least twenty bighas and owning their own plough and plough bullocks. We use the term high caste advisedly, for high caste cultivators are usually the descendants of a set of co-sharers who have drifted by degrees into the status of tenants through having come under the sway of an energetic over-lord, and men of this class are just as much to be trusted as co-sharers.

Several safeguards might be introduced at the outset to regulate the dealings of a popular bank with a village

bank. Before embarking on such a business, the members of the town bank, in their general assembly, would do well to pass a resolution forbidding the use of more than a fixed proportion of their funds in village business, the necessity of such a clause arising not so much from the expectation of risk in the matter as from the desirability of limiting to a certain extent the investment of more than a well-defined amount of the bank's resources in agricultural loans, which, from their longer duration, are more difficult to handle than ordinary commercial ones. A second safeguard would be the enforcement of a rule that two members of the village society should also be members of the town bank. There is no such rule in any European bank, but it is easy to show the utility of a regulation of this kind in India. Here we are dealing with persons entirely unacquainted with the banking idea, but desirous of obtaining credit by any means that offer themselves. The extreme imitative faculty of the Indian mind would probably lead to the foundation of an immense number of village societies, if the villagers thought that in this way they could obtain a loan from the bank. It is undesirable to place double-edged tools in unskilled hands, for, not only might people hurt themselves, but a failure would shake public confidence in the whole system. By refusing credit to a village society, unless two of its members belonged to the town bank, the directors of the latter institution could ensure, in the first place, that there were persons in the village acquainted with the bank's methods and capable of explaining any difficult points of procedure that might crop up; and, in the second place, they would be able, in a better position, to judge of the *bona fides* of the village society. An additional recommendation for such a procedure is to be found in the fact that it offers a solution of the difficulties caused by philanthropic people who, in their eagerness to pro-

vide the village society with funds, from the outset confuse the co-operative idea by the introduction of founder's shares. If there is any benevolent landlord desirous of setting up village banks on his estate, if instead of himself contributing money to such societies by means of founder's shares he joins the town bank or requests the admission of his representatives as members, he would confer an advantage on the town bank, on himself, and on the village bank. By taking up shares in a strong and solvent institution he would get a fixed dividend for his money, and would have an opportunity of becoming practically acquainted with co-operative methods, the town bank would be benefited by the increase in its working capital and by the additional prestige it would enjoy, through the adhesion of local landowners to the ranks of its members and the village bank could arrange to have its credit account regulated in proportion to the stake held in the town bank by the landowner who has joined the town bank for the purpose of fostering the village institution. It is, of course, understood that the town bank before opening a credit for any village society would satisfy itself that the members were all men of respectability, men with shares in land or tenants of high standing. If two members of the society are also members of the town bank, any credit opened in the name of the village society would practically be the same as granting a loan on the security of the bank's two members backed by the guarantee of all the other members of the village society. Nor is it contemplated to advance large sums of money. One hundred rupees might very safely be allotted as the highwater margin of the initial credit to be allowed to a village bank. This would give it the requisite start, and if the members wanted more capital they must learn to create it by their own thrift which is a much easier task than would at first appear, once people

have learnt the benefit to be derived from handling money.

The great and incalculable advantage obtainable from the formation of a village bank or credit society is precisely the same as that insisted on by Mr. Thomason in the case of the village community. The maintenance of a self-governing village community reduces the interference of Government servants in the affairs of individual co-sharers to a minimum. The co-sharers are very well able to settle their own family affairs and disputes without having recourse to an outsider except occasionally when in need of an impartial referee. Similarly, a town bank cannot do business with isolated villagers, it is not worth its while, it cannot trouble to set about gathering information regarding the solvency and trustworthiness of every villager who may want to do business with it. But it is a very different thing dealing with a body of villagers who have been picked out and selected for their trustworthiness on well-defined lines. With such a body a bank can do business, it can treat with them as if they were a valued client, it can let them have a lump credit and they can dispose of it, and allot it in small loans to those of their members who need it, and they can take all the trouble of securing repayment from individuals without the bank being called upon to interfere. The benefit is reciprocal and obvious. The individual villager by joining the credit society of his village gets the credit he could not hope to obtain as an individual ; the town bank substitutes for loans to individuals at a distance and all the risk attendant on such loans a lump credit to an approved society whose solvency can be ascertained with a minimum of trouble to itself.

A co-operative town bank is under the obligation of publishing a statement of its accounts every day, and it may be asked how it is proposed to effect this when it engages in financial relations with a society at a distance

from head-quarters. Where the village society simply acts as a loan society, distributing borrowed money in loans to its members and obtaining repayments, it would perhaps be sufficient to open a personal ledger account for it as is now done at Government treasuries for Court of Wards estates. Where the village society itself collects savings and has a cash balance in hand a different system should be followed. The method M. Rayneri follows and which he was kind enough to explain to us approximates closely to the system now in use in Government district treasuries for bringing on to the daily balance sheet the cash in hand at the different sub-treasuries. The treasury procedure is a little cumbersome, but it is very safe, and as its working is well understood by local people, it would be well to adopt its system *in toto* at the beginning, modifying it later on as occasion requires. The district treasury at head-quarters has no particular trouble in getting daily information from the sub-treasuries at the different tahsils in the district, and if it can work the sub-treasuries accounts into its own and draw up a daily statement showing the exact condition of the whole of the sub-treasuries in the district as well as its own balance, there is no reason why the town head-quarters bank should not be equally capable of showing the state of the village banks in its daily accounts, especially as the village bank is not likely to meet to transact business more than once a fortnight.

Our system then when complete contemplates the establishment of an independent limited liability co-operative bank at the head-quarters of each district, round which would be grouped all sister banks of the same kind in the district. Round each town bank would be grouped a number of affiliated village banks or credit societies working on the unlimited liability system. Directly a sufficient number of banks come into existence they would form themselves into a union with a view to the foundation

of a Central Bank. Once a Central Bank is founded the success of the movement is assured, but till then the key to the whole system lies in the setting up of a strong and self-supporting town bank at each district head-quarters. There is no obstacle in the way of the setting up of such banks in most of the north-west districts, there being absolutely no rival of any kind in the field. A great future is thus assured to well-managed institutions, for in every other country where popular banks have started the joint-stock banks have done business with them directly they have satisfied themselves that they were sound and healthy institutions. In the North-West Provinces it is easy to see that a well-managed co-operative bank in a locality where no organized means of credit previously existed could afford valuable assistance and receive valuable aid from a joint-stock bank wishing to extend its connections through the country and yet not desiring to put itself to extra expense by starting branches of its own. Our aim and object in recommending the system sketched out above is to bring into existence a system of credit supplementary to the organized banking system at present in operation, not one to rival or compete with it. We do not even propose to enter into competition with other banks for obtaining deposits, for our hopes are based on the ability of a co-operative bank to attract deposits from sources which have never yet been tapped, to bring into play past of the hoarded wealth of India and render it available for ordinary banking purposes. But though a co-operative bank would appreciate a helping hand held out to it by a joint-stock bank, if it wishes to obtain such aid without loss of self-respect, it must learn in the first place to be absolutely self-supporting. The co-operative bank that demonstrates its power to walk alone will never need to look about for assistance. The prosperous and successful are always surrounded by friends.

PART II.

PART II.

CHAPTER I.

The Town Bank—Its Constitution.

It is assumed that one or two energetic persons have succeeded in persuading a certain number of their fellow-townsmen that it would be to their mutual benefit to start a limited liability co-operative bank in their town. A meeting is called to consider the matter. The first duty of the meeting will be to frame rules. Part of these rules will necessarily relate to the constitution and management of the society. The control of the affairs of a self-governing co-operative society on the limited liability system is divided up in the following manner :—

The general assembly.—All power is centred in the general assembly of members. It elects the different officers and committees of control and administration, regulates the maximum amount of credit that can be granted to an individual during the year, and passes the yearly accounts.

There are two kinds of general assembly, the ordinary meeting and the extraordinary one. The extraordinary general meeting can only be called by the Council of Administration or at the request of a certain number of the members or at the instance of the Committee of Control.

The usual business of an extraordinary general assembly relates to modifications in the rules, to the increase or decrease of the society's capital, and to the exclusion of members who have shown themselves unworthy of belonging to the society.

The ordinary general assembly is convened by the Council of Administration and is held at the close of the financial year. It is considered inadvisable to hold more than one meeting a year or at the most two, one for passing the accounts and one for the election of officers, because of the disinclination shown by members when the first novelty has worn off, and they have become well accustomed to the routine, to attend in large numbers more than twice a year for the purpose of taking part in proceedings which are to a large extent of a formal nature. At least one-sixth of the whole number of members should be present to form a quorum at an ordinary meeting.

The notice convening the meeting should be accompanied by a clear statement of the business before the meeting and the subjects down for discussion. Both the statement and the subjects for discussion should be carefully gone through beforehand by the Council of Administration in order to avoid unnecessary argument or friction at the meeting, and should be submitted for revision to the Council of Control before the notice convening the general assembly is sent out. The chief business of an ordinary meeting is to hear and pass the administration report for the year's working, to examine the accounts laid before it, to elect its officers for the ensuing year, and to pass or modify the balance sheet, the amount to be carried to the reserve and the amount to be distributed in dividends.

Each member can only have one vote, however great the number of his shares in the society. All voting is conducted either openly or in secret. For ordinary business the voting is best managed by a show of hands unless a certain number of members (say one-tenth of those present) demand the ballot. Elections of officers should be usually decided by ballot. No proxies are allowed. A majority of votes entails the passing of the

resolution and decides elections. The Chairman has a casting vote.

The proceedings at the meeting should be conducted with the utmost attention to formality and precision. The Chairman of the Council of Administration takes the chair at the meeting which is declared open as soon as a quorum is present. Two tellers are then appointed by the members present, and they scrutinize the rights of those present to take part in the meeting. The Secretary, when everything is found in order, then proceeds to read the minutes of the last meeting, and a start is next made for the transaction of the business before the meeting. In order to facilitate the election of officers, Ettore Levi (the author of the manual recognized by the Italian popular banks) recommends that the names of those who are ready to serve and whom it is wished to elect should be decided upon at informal meetings held a few days before. All the resolutions adopted by the meeting should be taken down by the Secretary, and after having been countersigned by the Chairman and the tellers, should then be entered in the resolution book containing a record of the assembly's proceedings. A set speech by the Chairman on the benefits of the society and the advantages of co-operation is recommended by M. Rayneri as a fitting close to the proceedings.

The Council of Administration.

Just as a popular assembly like the House of Commons finds it convenient to leave the general control of its affairs in the hands of a few picked men known as the Cabinet, so a co-operative banking society finds it better to leave the management and direction of its business in the hands of a few selected members rather than to allow all the members to meddle in it. The Council of Administration is the specially selected

body of members who carry on the bank's business, though, of course, they are ultimately responsible to the General Assembly that elected them for their conduct of affairs. In Italy it is usual to have a large body of administrators, and the system might well be copied in India, where the customs of bazaar life favour the constant meeting together of local townspeople at any well-chosen spot within the bazaar. From fifteen to twenty persons, if so many capable men are forthcoming among the members, should be the average number composing the Council of Administration. Half the total number is sufficient to constitute a quorum.

Great care should be exercised by the General Assembly in their choice of men to serve on this important committee, as upon the initiative displayed by this council the success of the bank largely depends. The council possesses a chairman, a vice-chairman and a secretary, all of whom should work gratuitously. It sits once a week, and the usual procedure for recording minutes of the meeting should be followed as in the case of the General Assembly. In every large North-West town there is now a municipality, and there are large numbers of gentlemen who have either served or are serving on Municipal Boards. Any person in the Council familiar with the proceedings at a municipal meeting should have no difficulty in assisting at the observance of a similar procedure at the committee meetings of our Council. The voting is decided by a simple majority, and in cases of equal voting the Chairman has the casting vote.

The duties of the Council of Administration are briefly as follows :—

To nominate, suspend and dismiss employees.

To fix the expenses of management.

To superintend all the bank's operations.

To draw up all regulations and bye-laws.

To draw up the balance-sheet and make proposals for the distribution of dividends.

To submit an annual report to the General Assembly.

To fix the rates of interest on loans and deposits.

To appoint the managing director, regulate his pay, if any, watch his conduct, suspend or dismiss him.

Besides these general duties, the members of the Council should arrange to take turns for assisting daily in the bank's business. One member should be present at the opening and the closing of the bank and to sign any documents that require counter signature by the rules of the Society. The treasure should ordinarily be kept under double locks, one of the keys of which should be with the member on duty for the day. The duties of the member in attendance are not so arduous as might be imagined at first sight, for, as the bank caters primarily for the wants of its own members, it can fix its hours of business when and how it likes. In a small bank there is no need for it remaining open more than three or four hours a day. Besides the object of such a bank is to create the same feelings as exist among the members of a social club, and to get as large a number of members to frequent the bank's rooms as possible.

At the weekly meeting, the Council should take cognizance of all the operations of the bank during the previous week, should decide on all matters referred to it by the managing director and examine the qualifications of all persons requesting membership.

In order to ensure continuity of administration, one-half or one-third of the members only retire annually, when new elections take place to fill up the vacancies caused by the retirements.

The Committee of Control.

In order to ensure an effective supervision over the employees and over the doings of the Council of

Administration, it is usual for the General Assembly to elect three members as supervisors and two more to take their place in case illness or absence prevents any of the three from fulfilling the duties assigned to them. The members of this committee are invested with plenary powers for checking all operations of the bank. They are entitled to take part in the meetings of the Council of Administration; it is their duty to verify the books at certain periods of the year, to count the treasure, to examine the different values held by the bank, and to check the annual report of the Council of Administration before it is submitted to the General Assembly. Under Article 184 of the Italian Commercial Code, their duties and responsibilities are defined under ten heads, which all, more or less, relate to the checking and auditing of accounts, very much the same supervision being expected of them as the Indian Government expects from its District Officer in regard to the Treasury and other offices under his control.

No employee and no member of the Council of Administration can obtain credit from the bank without the previous sanction of the members of this Committee.

The Committee of Arbitration.

Three Arbitrators are elected by the General Assembly ordinarily for a term of two years. Their special duty is to decide all disputes that may arise between members and the different committees and, if asked to do so, they may offer their services for settling quarrels among members themselves. Their decision is final in the case of any member who appeals to them against a decision of the bank authorities refusing him a loan or discount, also in the case of members who appeal to them in a case of exclusion from the society, and in the case of applicants for membership, who have been refused admission and who appeal against the refusal.

The Committee of Discount.

This is one of the most important of the committees. It is an extremely large one because it is desirable that all the classes to which members may happen to belong should have representatives on it; accurate knowledge o the financial position of the different members is essential if the work of the Committee is to be satisfactorily carried on. This knowledge is possessed to a higher degree by persons belonging to the same class or trade as the members applying for credit than by any one else.

The Committee should consist of double the number of members on the Council of Administration, but all the members do not sit at the same time. They take turns at duty every week, three members at a time; nor do these members sit alone. Two members of the Council of Administration sit with them, when applications for discount are being made. The meeting formed in this manner hears all the applications put before it by the Managing Director and has absolute power to accept or reject any of the requests made to it. Whatever questions it cares to ask from the Council of Administration, or from the Directors, or their employees, must be answered by them. The voting is done in secret. Nothing should be allowed to transpire as to the reasons which may lead the Committee to reject or accept an application, nor is it bound to assign reasons for any rejection. If any member is displeased with its order he has the right of appeal to the Committee of Arbitration, whose judgment is final.

In a speech delivered to the first members of the Bank of Milan, M. Luzzatti observed: "In the hall of the Committee of Discount should be inscribed the memorable words of the Gospel—'I do not know father nor mother ...... only he who follows the truth follows me.'"* Further

* This as Mr. Wolff observes is a slight misquotation.

on M. Luzzatti lays stress on the need of the members being chosen from all the classes represented in the Society, on the desirability of their being able to judge free from personal preoccupations or pressure of any kind, and on their feeling that the discharge of their duties entails a heavy responsibility towards their fellow-members, and that in the way they work depends to a great extent the rise or fall of their institution.

The Managing Director.

This officer is the head of the bank's employees. As has already been noted, his appointment rests with the Board of Administration. All suspensions and promotions of employees are made by him subject to the ultimate assent of the Council of Administration. His influence in the direction of the bank's affairs must depend largely on his own personal character ; consequently the greatest care is necessary in the selection of a thoroughly competent man for the post. His manners should be extremely courteous, for, as he represents the society in their dealings with third persons, the judgment passed by outsiders on the general tone of the bank must be largely coloured by the impressions they have formed from contact with him. Besides exercising an unceasing control over the affairs of the bank he should make it his special business to acquire knowledge as to the financial position of members, and should endeavour to attract good men to take membership in the society. On him, too, falls the principal responsibility of regulating the bank's expenses. A good managing director should be able to cut down expenses to the minimum consistent with efficient working, just as much as a careless one is likely to allow expenses to swell to a disproportionate degree. All the work of the bank's correspondence also falls on him, as well as the duty of signing all documents issued by the bank whether coun-

tersigned by a member of the Council of Administration or not.

The Clerical Establishment.

The two principal members of the clerical establishment are the cashier and the accountant. The first named is responsible for the treasure, the safe custody of securities, and the keeping up of the registers connected with this. The accountant's duties are of the same kind as in any other large establishment or banking firm. The duties of a cashier and of an accountant are well understood in the smallest Indian bazaar, and no need exists for going minutely into the nature of their duties.

The above description of the interior organisation of a popular bank holds good only of a fairly large bank in full working order. When a bank is being formed, there is no necessity to introduce all the system at the first start. Several of the offices can be advantageously combined, and there is nothing to prevent the work of the Committee of Discount being done by a Sub-Committee of the Council of Administration. But it is unlikely that the multiplicity of committees will prove a drawback to the popularity of the system in the North-West Provinces. The experience gained from municipal administration in India shows that members of a Municipal Board like nothing better than to split themselves up into small sub-committees, provided these sub-committees have full power over the department whose affairs they profess to regulate. The numerous committees of a popular bank, each master in its own branch, should prove an attraction to the public-spirited Indian citizen, while the precision with which it is possible to formulate the duties of each committee, ought to satisfy the most critical and captious Bengali Babu.

All members of committees and all office-bearers are expected to give their services gratuitously. In Italy nearly

all the higher officials, give their work for nothing, and M. Luzzatti has thrown all the weight of his great influence in the scale to secure an unanimous recognition of the principle. The clerical establishment is paid, but in many popular banks their pay consists of a share in the profits, while every large bank has its own special provident fund for its employees' benefit. In India it would be advisable to insist on gratuitous service throughout. Even in the case of the clerical establishment payment, if thought necessary, should only be made for lost time; but it would be better to put aside altogether the idea of having a paid establishment, until the bank has at least over two hours business a day. Probably an hour a day for three days a week would be quite sufficient to get through the business that might come in during the first few months. The trifling labour involved in transacting such a small volume of business could easily be got through by one or more members acquainted with accounts and book-keeping. In India there is generally very little trouble found in getting expert clerical assistance at a minimum amount of expenditure. No clerk should, however, be employed, unless he becomes a member of the society.

The next point to be considered in relation to the constitution of the bank is the position of the individual member towards it: what his rights are, what his responsibilities are, and what restrictions are necessary for the issue of shares.

Admission to membership is obtained on application to the Council of Administration. The application has to be backed by a certificate of two members stating that the applicant to their knowledge is an honest and respectable person. The election of the applicant entails the following responsibilities on him:—

1*st.*—He is bound to pay an entrance fee either in instalments or within a fixed period, according to the rules of his society.

2nd.—He is bound to take up at least one share.

3rd.—He is bound to hold himself answerable to the full amount of the shares subscribed by him for all the obligations assumed by the society.

But it also carries with it the following privileges, provided the entrance fee is paid and at least one-half of the share, and provided the new member's name has been in the society's list for three months :—

1st.—He has the right to take part and vote in the General Assembly.

2nd.—He has the right to obtain credit from the society in the manner and to the extent prescribed by its rules.

3rd.—He has the right to participate in the profits according to the amount of his shares.

Membership is lost by death, by alienation of the share, and by expulsion of the member from the society.

No shares can be transferred, except by consent of the Council of Administration, nor can any one acquire membership by inheriting a share. In the latter case, the share must either be surrendered to the society, who will pay up its value in full or, if it is desired to retain it, the heir must apply for admission as a member in the usual way.

A member may be expelled from the society by the Council of Administration.

(1) For delay in payment of his share ;
(2) for loss of his civil rights and bankruptcy ;
(3) for conduct which the arbitrators consider dishonourable ;
(4) for compelling the society to go to law with him to obtain payment of the obligations he has incurred towards it.

All shares are nominative and personal. It is usual to fix a maximum for the number of shares a single member may possess. Fifty shares will probably be found a convenient limit. The amount of the share should ordi-

narily be low enough to admit of respectable men of very small means joining the society. A share of Rs. 10 paid up in instalments of Re. 1 per month ought to be within the power of most poor clerks and small traders to take up. Fifty shares of Rs. 10 would make Rs. 500 the highest stake any individual member could have in the society. The share, however, might be as high in value as Rs. 50, in which case Rs. 2,500 would represent the maximum investment allowable to any one shareholder. Although there is no objection to any one member holding a large number of shares, for a member only has one vote however large his holding, yet it will be found to be in the best interests of the bank to equalize, as far as possible, the number of shares held by its members, but this is a step which need not be taken till the bank is in perfect working order and has obtained a secure position.

A moment's consideration will show that a Rs. 10 share in a bank which has a strong reserve fund is a more valuable possession than a Rs. 10 share in a newly started bank which has still to build up its reserve. The Italian bankers recognize this, and every year the council of administration after examining the state of the bank's reserve and its financial position determine the premium at which shares will be issued to new members during the forthcoming year. The premium is not very considerable on shares of such small value even in strong banks, but whatever the amount of the premium may be, it is carried to the credit of the bank's reserve fund. The justice of such a procedure is self-evident. The new member by payment of his share obtains membership of the society, but if the society has a reserve fund which has been built up by the exertions of former members it is only fair that the new member should pay a slight sum for the extra advantages which the possession of the

reserve fund confers upon the society, which advantages were in no way brought about by the exertions of the new member.

The capital of a town bank besides what accrues to it from the payment of shares by its members is further swollen by the reserve fund. The building up of a strong reserve fund is one of the chief objects a co-operative banking society should consistently keep in view. Not only does the strength of the reserve fund ensure a corresponding degree of stability to the society, but its growth carries with it increased freedom of action and independence of outside financial aid in times of stringency. Members imbued with the true co-operative spirit should keep down dividends and carry over all available profits to the reserve. The dividends should never exceed a fixed amount, which it would be wise to put at as low a sum as possible, and if members are capable of the sacrifice, there should be no dividends at all for the first few years, but all profits should be carried to the reserve fund till it has grown strong enough to enable the bank to command credit on the most favourable terms.

The reserve fund is built up out of the sums obtained from entrance fees and from the amount set aside at the annual division of the profits. When the reserve fund reaches half the value of the share capital there is no need to go on increasing it unless the members care to do so, the surplus profits that would in ordinary case have gone to it being added to the sum available for distribution as dividends.

It is usual to devote 20 per cent. of the yearly profits to the reserve fund, 70 per cent. going to the members, and 10 per cent. being left in the hands of the Council of Administration for distribution among the bank's employees or for carrying out works of public utility. The latter include such items as subscriptions to hospitals,

to charitable purposes, and even to the presentation of scholarships to deserving young men of the town in the interests of education. There is in fact hardly any limit to the field over which co-operative benevolence may spread itself for everything which tends to promote the local welfare and makes better citizens of the towns-people helps indirectly to strengthen the position of a bank which seeks to improve morally and materially the well being of its clients.

The yearly profits are arrived at on the basis of the figures shown in the balance sheet prepared at the close of each year. The preparation of this balance sheet demands the greatest care, and its importance is shown by the fact that it engages the attention of all the principal organs of the bank, for it is first prepared by the Council of Administration, then revised by the Committee of Control, and finally adopted either in the form submitted or after still further revision by the General Assembly.

The balance sheet should not only show in a clear manner the exact amount of profit and loss during the working year, but it should also contain as many details as possible to show the members as well as the outside world the general methods followed in the transaction of business by the society. The balance sheet is best accompanied by a report showing the way in which the results under each head are obtained and the reasons which influenced the Council of Administration in any particular policy they may have adopted. The preparation of the balance sheet should be carried on by the Council in consultation with its employees, the function of the Committee of Control in the matter being to see that every rule of the society is observed in its compilation. Further, as it is largely based on the state of accounts on the last working day of the year under review, the first duty of the members of the Board of Control is to satisfy themselves

that the amount of cash securities and effects shown in the bank's accounts on the last working day are actually in existence. If the bank possesses any stock or deeds, either in its own name or in its custody, the value of each one should be scrutinized and compared with the value shown on the books. The thoroughness of the audit made in this manner by the Committee of Control does much to secure efficiency in the bank's management. When the balance sheet is prepared it should lie at least fifteen days in the bank's offices before its submission to the General Assembly for any member to examine and have explained to him. In Italy it is usual to print in neat little books the report, the balance and the result of the year's working. This facilitates reference, and as it conduces to accuracy, clearness and precision, it is an example which should invariably be followed in an Indian co-operative bank however small its working may be at the outset.

CHAPTER II.

THE TOWN BANK—*continued.*

(ITS METHODS OF BUSINESS.)

THE ordinary operations of a popular bank comprise the usual operations of a joint stock bank; but, in addition to the well-known methods of business practised in joint stock banks, there are several special features in the business of a co-operative institution which are altogether peculiar to it and are deserving of special mention. It is not within the scope of this little work to go into the ordinary details of banking business which are already tolerably well known and familiar to the greater number of better class educated persons in an Indian bazaar. After touching briefly on the ordinary operations of a popular bank, we propose to review, with a little more detail, the characteristic methods of business in vogue in co-operative banks, especially those regulating the grant of credit, either with or without security in the form of a loan or of a cash account to individual members.

The operations of a popular bank are invariably confined to business of a non-speculative character. All operations in which the slightest element of gambling enters are strictly prohibited.

The ordinary operations of a popular bank are comprised in the following list:—

1*st.*—To make loans to members upon their shares.

2*nd.*—To discount for members bills-of-exchange, warrants, specifications of work undertaken, bills for goods,

orders of public departments, and treasury, provincial and municipal bonds.

3rd.—To make loans to members upon personal security or upon value deposited for a period not exceeding six months.

4th.—To make loans upon honour to members.

5th.—To open cash accounts for members on the guarantee of two or more persons of good standing, or upon security deposited.

6th.—To undertake operations of credit on behalf of agriculture for members.

7th.—To receive cash deposits from members and the general public.

8th.—To undertake collections and payments for members and the general public.

9th.—To receive for safe custody from members and from the general public valuables and, if necessary, to collect any interest payable thereon.

Two of the items in the above list are limited in character. The amount which a bank thinks fit to allot in loans on honour is determined at the beginning of the year. There is a similar restriction on the sum that can be employed in agricultural credit.

A member who wishes to obtain a loan or discount must—

1. Have paid up at least one-half of the value of one share.

2. He must not have any debt due either to the society or to his own sureties on account of any previous loan or discount obtained from the Association.

3. He must offer, according to circumstances, guarantees of a moral and material nature for the exact fulfilment of the obligations which he assumes.

A member can ordinarily obtain a loan of double the value of his share, provided, if he holds more than one

share, the amount does not exceed the maximum sum which the Council think it consistent with the safety of their bank to lend to a single member. If he wishes to get more than double the value of his share, he must furnish security, either that of fellow-members or of approved third persons.

The machinery by which the popular bank guards itself against the reckless bestowal of credit on individual members consists of a well understood method of checking the solvency of each person by means of a register called the 'Castelletto.' The Castelletto is practically a solvency register, and is prepared in the following manner: Before a society begins to make advances to members, or to discount their bills, a table is drawn up showing the amount of credit which each member can safely be allowed. This table is prepared by a select committee formed out of members deputed from the Council of Administration, the Board of Control and the Committee of Discount, and it is revised periodically. The table is prepared in secret, for it is obviously inadvisable to have a matter of such delicacy discussed in a public meeting. It is also kept secret, and no one has any right to inspect it except the President of the Council of Administration, the Vice-President and the Managing Director, who are the three persons generally excluded, while they hold office, from obtaining any loans from the society themselves. Its use is to serve as a check, and a very efficient one it makes, although at first sight, considering the number of restrictions already hedging in the grant of credit to a member, it might seem something like a fifth wheel; but a little consideration will show its uses. All applications for credit are examined by the Discount Committee. They have the power of recommending that a loan should be granted, or a bill discounted, or *vice versâ*. But, if the Managing Director

think that the solvency of the member does not entitle him to the grant of the credit, he can make his objection to the Committee, and, if his opinion is supported by the entry against the member's name in the Castelletto, the objection is not likely to be overruled. All members of the bank, it is true, are persons picked out for their good reputation and honesty, but their solvency is a matter that changes with time, and a popular bank can never err by being too cautious. The Castelletto further furnishes a convenient guide in more complex transactions, where several members are engaged, and an example borrowed from M. Levi's manual will serve to illustrate this.

A is entered in the Castelletto as good for				Rs.	3,000
B	,,	,,	,,	,,	2,500
C	,,	,,	,,	,,	3,500

A has a loan from the bank for Rs. 2,000, and *B* a bill-of-exchange discounted for Rs. 1,800, *C* before payment on either of these has fallen due, presents a bill-of-exchange for Rs. 5,000 for discount. As he is only entered in the Castelletto as good for Rs. 3,500, he could not himself get the bank to discount it for him. But his bill-of-exchange is backed by *A* and *B* with their signatures. *A* still has a margin of Rs. 1,000 credit in his favour in the solvency register, while *B* has Rs. 700. The bank could, under such circumstances, safely discount *C's* bill-of-exchange, for the total liabilities of the three members would then only aggregate Rs. 8,800, while the amount for which the bank regarded them as solvent stands at Rs. 9,000. But if *C's* bill-of-exchange was for Rs. 6,000, the bank would refuse to discount it, as the Castelletto shows that the solvency of the three men is not equal to bearing a debt of Rs. 9,800 between them, the three members combined not being good for more than Rs. 9,000.

In short, when a member presents an application for credit of any sort, besides the guarantee already afforded

from the fact of his membership, the bank guards itself from possible loss by having his application considered and adjudicated upon by a special committee, the committee of discount, by having the maximum amount any individual member can obtain fixed at a general meeting every year, and by having the maximum amount, any particular member is thought fit to be trusted with, fixed in a solvency register. With all these checks and with an efficient managing director, the bank ought not to suffer much loss from its loan or discount operations.

Besides making loans to members on ordinary security, personal and otherwise, the popular banks of Italy have introduced a noteworthy development in the system of personal credit by granting loans on honour. These loans are granted without any security at all to members and others who are thought worthy of them. The practice is one which appears to traverse all accepted banking practices, but the record of the working of the system in different popular banks shows that it is one of the branches of operations in which the least loss is incurred. The grant of a loan of this peculiar nature is of course unattended by profit, and it may be asked why a bank should put itself to the trouble of making such loans? The answer lies in the fact that it is the crown of the system on which the bank has been built up. The formation of the bank is prompted by the need of mutual help, each man looking to his neighbour to join him, so that, by their united effort, they may obtain credit, which individually they found to be out of their reach. But the popular bank is democratic in nature. It aspires to bring credit within the reach of the very humblest and the very poorest. There are some people so poor (if we may be allowed to paraphrase M. Luzzatti's speech at Bologna in 1879) as to be incapable of getting together even a share in a popular bank, there are some people so ignorant as

to be incapable of understanding the value and price of the sacrifice required in the present with a view to securing for themselves credit in the future! Such people, when sudden want assails them, have nothing to offer as guarantee for the repayment of a loan, except their reputation for honesty. A man may have been a good workman for twenty years and earned his daily bread in an honourable manner. Some calamity, such as illness or famine, may have thrown him out of work. His few household utensils and tools are soon pledged or sold; but when work again offers, how is he to re-establish himself without tools, without money, unless a little temporary assistance is offered him. If there is a popular bank, he can be saved from the clutches of the usurer by obtaining the loan on the pledge of his honour, or, as we should call it in India his "*izzat*."

The loan on honour bringing no profit to the bank, the amount that can be allowed for this particular kind of operation is necessarily very limited. But if the bank gains nothing materially, the increase in its prestige through this concrete example of the benefits of union and co-operation more than compensates it for the trouble such loan may cause it. It must be remembered that a popular bank is distinctly a local institution; its continual aim is to identify itself with the well-being of the town where its business lies, and with the interests of the best of the inhabitants of the town. It should draw to itself all the cream of the towns-people, and being local in character, it cannot refuse from time to time to listen to deserving cases put before it by its trusted members—cases which the rules of the bank do not permit of being relieved in the ordinary manner. No better object lesson of the benefits of co-operation can be given by the members than for them to devote a small portion of the funds they have obtained by their own exertions towards

the relief of those who have not yet learned the lesson of co-operation, or who, having learnt it, are prevented by misfortune from availing themselves of some of its advantages.

There are four kinds of loans on honour practised by Italian banks.

1*st.*—That of the Bank of Bologna, which lends up to a certain sum gratuitously, its funds for the loans on honour being allotted with a view to reward good conduct joined with capacity and activity among poor people, and so teach them the advantages of credit for nothing.

2*nd.*—That of the Bank of Milan, which required borrowers of this type of loan to pay a small interest on the loan, this interest never exceeding the amount of interest allowed on deposits in the savings bank branch. It allowed the representatives of Provident Funds to take part in the proceedings of the special committee that supervised the giving out of the loans. Latterly it has made over a fixed annual sum of 16,000 lire to the local working men's bank free of interest, and leaves the distribution entirely in the hands of the small bank.

3*rd.*—That of the Banks of Cremona and Bergamo, which make over their allotments under this head to the Provident Societies for distribution.

4*th.*—That of the Bank of Padua, which sets aside every year a sum for charitable purposes in connection with its loans on honour. The bank lends on honour at 2 per cent., and as its funds are expected to return at least 4 per cent., the difference is made up out of this special allotment. The delegates of the local provident societies are allowed to take part in the proceedings of the bank's committee which supervise the distribution.

The general tendency among Italian popular banks is to limit these loans to their own members and to outsiders who are members of a provident society of some sort, the

membership of a provident society being regarded as the first step towards self-help that an individual has it in his power to make.

The common features to all the different kinds of loans on honour, according to S. Levi, are as follows :—

1st.—The loan must be kept small enough to prevent better class people trying to obtain a loan on honour in preference to one on the ordinary terms, and yet be large enough to give the requisite assistance needed by the honest artisan or clerk.

2nd.—Every application for a loan should strictly indicate the manner in which it is intended to employ the money lent in order that some guarantee may be obtained against its being squandered.

3rd.—The application must be backed by two honest persons who know the applicant, attest his honesty and assume a moral obligation of seeing that he will carry out his bargain.

4th.—Loans should be for a sufficiently long duration and be repayable by fixed instalments.

The following extract from the very latest rules on the subject in use in the Bank of Bologna will give a fair idea of the manner in which a bank of high repute works the system.

1. The loan on honour is given to a person entirely destitute of means provided that—

he has a reputation for honesty and hard work ;
he is engaged in a trade, craft or business ;
he be deemed capable of setting himself to clear off punctually any loan made to him ;
he knows how to write.

2. There are two classes of loans on honour :—

One, Class A, for a sum not exceeding 100 lire (Rs. 50) on which no interest is charged.

The other, Class B, for a sum not exceeding 200 lire (Rs. 100) on which a small interest is charged; this class of loan being granted only to those persons who are about to set on foot or develop a small business.

No third person is required as security for loans in either of the two classes.

3. The duration of the loan cannot extend beyond 420 days or 60 weeks.

4. Repayment is made by weekly instalments according to the terms of the loan. The administration can, under certain circumstances, permit of the payments being made monthly.

5. The loan is made on the recommendation of two well-known persons of repute, who are personally acquainted with the applicant, and deem him capable of making regular repayments.

6 & 7. One at least of these two persons must be a member of the bank.

8. The proposers do not incur any material obligation towards the bank. They are under a moral duty to advise and stimulate the borrower to behave honourably until the loan has been repaid, in order that the bank may not be cheated.

9. When the loan is made the borrower receives a cash credit form in which the sum advanced is shown as debited to him. All payments made by him are posted to his credit in the cash credit form with which he has been supplied.

The Bank of Bologna began with a capital of 100,000 lire (a lira is now a little over 8 annas) in 1866. The number of its members was originally 538. Its reserve was *nil*. In 1898 its members numbered 4,962; its paid-up capital amounted to 1,260,540 lire and its reserve actually exceeded the capital, having reached the figure of 1,491,531 lire. Its savings and deposits

reached in 1898 the sum of 7,675,874 lire, and the total amount of its loans and discounts during the year amounted to 29,618,593 lire. These figures are quoted in order to show what proportion loans on honour should bear to the rest of a bank's operations and to its capital, etc. The bank's accounts for 1898 show that in that year 278 applications were made for loans on honour for a total sum of 33,520 lire. Of these 135 applications for a total of 15,510 lire were admitted. In the preceding year there were 232 applications for 26,490 lire and 101 of these for 11,340 lire were admitted.

At the close of the year there were in course of payment 133 loans for a total of 15,420 lire originally, but this sum the payments on account had reduced to 8,386½ lire.

During the year 470 lire 10 cent. were written off as irrecoverable, but against this must be set off 52 lire recovered from loans written off in past years. The loss was inconsiderable, and in the words of the bank's report in its working contained in a memoir submitted at the Exhibition of Turin in 1898, the bank gladly sustained the trifling loss. From 1876 to 1897, it had made 1,533 loans on honour for a total sum of 149,545 lire to persons who, under no possible circumstances, could otherwise have had a chance of obtaining credit. On these advances it had sustained a total loss of 4,207-40 lire equivalent to 2 lire odd for every 100 lire advanced. Probably no amount of good was ever effected at such a trifling expense.

In India the loan on honour should play an important part in the bank's operations. Its first great use will be to continually remind the members of the duty they owe to their less fortunate brethren, and the obligation that devolves on them of giving some little part of their surplus profits in good works. Its second great use will be in

educating the outside public as to the advantages to be gained by thrift and co-operation. Its third great use will be in familiarizing the leading townspeople with the best methods of helping the respectable poor, so that in the event of another terrible visitation like the great famine coming upon the provinces, our people will be ready, and if it is necessary to constitute committees for the relief on a large scale of the respectable poor, the members of the bank, all trained in the methods of discriminating cases worthy of help and well acquainted with the most deserving of their poorer fellow townsmen should be the first to come forward and volunteer their expert services for the assistance of Government and their fellow-countrymen.

The maximum amount allowed as a loan on honour in the Bologna Bank is of course too high for India. Class A should not exceed twenty rupees, and for Class B Rs. 40 will probably be found sufficient. But it would be well to adhere to the rule that Class A should be made without interest, and Class B at an interest of about 3 per cent. The amount available for such loans at the outset would of course be very small, not more than one per cent. of the bank's paid-up capital ; but everything must have a beginning and the experiment is well-worth trying. It is true that there are very few friendly societies in India, so that membership of such a society could not be insisted on as a qualification for a borrower, but among two important classes, railway servants and Bengali Babus, the advantages of provident funds are well understood, and everything points to a very rapid development of the Friendly Society in India in the near future. The setting up of a co-operative bank in any town would probably give an immense impetus to the formation of provident and other similar funds, so that the qualification of membership in a friendly society is of very secondary importance. By the

time a bank begins to make loans on honour on any large scale, the town where it works should possess a well organized system of friendly societies on the English model.

Advances on securities fall under the category of ordinary banking operations and need no special remark; but a few words appear necessary as regards advances on pledges. A popular bank is not a pawnshop, but occasions must sometimes arise when members may require an advance on personal effects, and in India, where it is the common practice to invest in jewellery as a convenient form of security on which money may be raised in hard times, applications for loans on this kind of pledge are bound to be of frequent occurrence. A popular bank, however, prefers personal security to any other kind of security, and this branch of business is not one that should be encouraged. Since the fall in silver, it has become a somewhat risky operation, and a very large margin is, we believe, now required by money-lenders between the present value in rupees of the silver ornaments on which the advance is made and the amount of the advance, not more than one-half or a little more of the rupee value being generally advanced. The interest charged by the money-lender varies according to the poverty of the borrower and the aggregate value of the pledge. The Bank of Bergamo has endeavoured to introduce the system of personal security into this special branch of operations, and its method is one deserving the consideration of an Indian popular bank. It advances on pledges, but it allows the pledge to remain in the hands of the borrower exactly the same as in England in the case of a bill of sale on furniture. In India, among certain classes of people, there are certain ornaments used on marriage festivities and in the decoration of idols which, if pawned, are generally done so with a provision, that the borrower may have the use of them for a day or so, on the special occasion when they are worn.

If, then, a bank here made advances on ornaments, a practice which is not recommended, it might confine itself to taking the jewellery as an additional guarantee for repayment, the assignment of the jewellery being considered secondary to the borrower's promise to pay, and the jewellery might, if the borrower could be trusted to that extent, be allowed to remain in his possession, or in the bank's safe, available for withdrawal for any particular day the borrower required its use. Transactions of this nature should, however, be very exceptional.

The cash credit is a part of the popular bank's operations which requires considerable care and prudence on the part of the Managing Director. Its drawback is that it locks up, to a certain extent, part of the bank's funds, and a popular bank always prefers to have its funds so placed, as to be capable of realization in the shortest possible time. The cash credit should only be granted with caution and, after the bank has obtained sufficient working capital, to enable it to enlarge its operations beyond the making of small loans to its members. It is especially suited to the needs of agriculturists, and preference should be given to farmers in this class of business, for they are less likely, than commercial men, to make a sudden run on the bank in a body. In dealings with commercial men, there is always the danger that, at a time of panic, they would draw on their cash credits to the full extent allowed them, and this might seriously strain a bank's resources at a time when it itself had the greatest need of husbanding them. In agricultural operations there is not the same likelihood of sudden panics, and, though in time of famine the farmer would draw on his credit as much as the bank allows him, the approach of scarcity is slow and well defined, and a bank would always have time to concert measures to meet the demands of its clients.

The cash credit is obtained for a specified period. It is granted in Italy on the security of the borrower backed by the guarantee of two approved sureties, and the transaction is drawn up in the form of a bill of exchange of an amount, and for a period, corresponding to those of the cash credit. It is permissible for the borrower to offer a mortgage of his property as collateral security in place of one of the sureties; but the guarantee of two sureties is preferable owing to the facility with which the money can be recovered from personal sureties. In India, especially if the loan was granted on a promissory note to pay, backed by two sureties, there would be no difficulty in recovering the sum through the Civil Court, supposing the borrower failed in his engagement towards the bank.

On obtaining the credit, the borrower is furnished with a cheque book, and he is at liberty to draw out, when and how he pleases, money up to nine-tenths of his credit during the period for which the credit has been granted. The bank keeps back one-tenth as a guarantee against interest and charges due on the advance. During the period for which the credit has been granted, the borrower can pay back, when and how he pleases, all payments being credited to his account, provided that the sums he pays in do not exceed his drawings. It is usual to charge a higher rate of interest for the drawings than that allowed on the repayments, for the benefits obtained by the holder of the credit are much greater in proportion than those derived by the bank from the opening of the account. Credits should not be allowed to any member who fails to make a constant use of the facilities they afford, for it is of the highest importance to restrict this class of operation to persons who, from the nature of their business or occupation, really stand in need of it.

The following illustration, drawn from S. Levi's Manual will serve to show clearly the exact working of a cash credit account :—

Suppose the Council of Administration has decided to open cash credits on guarantee with the following conditions as to interest : 6 per cent. on drawings, 4 per cent. on repayments.

Member *N* applies for the opening of a cash credit for L. 1,000 for the term of 7 months, and the discount committee grants the application. The member on the 1st of February signs a bill-of-exchange for 1,000 lire (backed by his sureties *A* and *B*) ; he receives a cheque book and a deposit book in which is entered to his credit the sum of L. 1,000 available up to the 31st August. On the same day *N* withdraws L. 100 ; on the 1st April he withdraws another L. 400 ; on the 1st May he pays in L. 400 ; on the 1st June he withdraws L. 400 ; on the 1st July he pays in L. 100. The account is closed on the 31st August, on which day *N* settles his account. The appended table shows the working of the credit.

Mr. N__________Cash Credit guaranteed by Messrs. A. & B.

Dr. Date	DRAWINGS.	L.		Interest at 6 p. c.		Date	PAYMENTS.	L.		Interest at 4 p. c.		*Cr.*
Feb. 1st ...	By Cheque ...	100	...	1	...	Feb. 1st ...	By Bill of Exchange up to 31st August ...	1,000	...	...	...
March 31st ...	Interest to date ...	1	...			May 1st ...	By Cash	400	...	2	65
" " ...	Balance due ...	101	...	1	50	June 30th ...	To Credit	400	...	2	65
April 1st ...	By Cheque ...	400	...	6	...	July 1st ...	By Cash	100	...	...	...
June 1st ...	" " ...	400	...	2	...	" " ...	Interest from 1st July to the 31st August on L. 500 ...	...	...	3	35
" 30th ...	Interest to date ...	9	50	9	50						
" 30th ...	Balance due ..	910	50			August 31st ...	To Credit by interest...	6	...	6	...
August 31st ...	Interest from 1st July to 31st August ...	9	10			" " ...	Paid in settlement of account ...	413	60		
		919	60					919	60		

N.B.—A lira is worth a little over eight annas. There are 100 centesimi in every lira, 10 centesimi roughly corresponding to an anna.

The greater part of the popular bank's operations are confined to discounting promissory notes and bills-of-exchange. Experience has shown that the best use a popular bank in a large town can make of its funds is by lending them in small sums for short terms to members and by discounting good paper which at a pinch can always be re-discounted. In India the discounting of native bills-of-exchange known as hundis as well as that of promissory notes should form the backbone of a town bank's business. For, as in Italy, the Indian hundi does not run for more than a few weeks; its discount is a safe operation as long as it is confined within certain limits; and what is more important, the legal liabilities arising from such a business are very precisely laid down in as handy an Act as the corresponding Italian one. The Act which regulates all operations in bills-of-exchange and promissory notes is known as the Negotiable Instruments Act of 1881. A complete knowledge of this Act is incumbent on any one who wishes to engage in discounting bills-of-exchange and promissory notes. The following are the definitions of a promissory note and a bill-of-exchange as contained in the Act:

A "promissory note" is an instrument in writing (not being a bank note or a currency note) containing an unconditional undertaking, signed by the maker, to pay a certain sum of money only to, or to the order of, a certain person, or to the bearer of the instrument.

A "bill-of-exchange" is an instrument in writing containing an unconditional order, signed by the maker, directing a certain person to pay a certain sum of money only to, or to the order of, a certain person, or to the bearer of the instrument.

Promissory notes are the ordinary means used in an Indian town by clerks, lawyers and persons not engaged in business for obtaining credit for a few months. Bills-

of-exchange are the favourite means of obtaining credit in use among the trading classes. There are a great variety of hundis in use in Upper India, and the methods in vogue regarding them are largely governed by local usage. A fair idea of the different descriptions of hundis in common use may be gathered from the following account of them given by Mr. Shiv Narain in his useful book on Pleadings in Indian Courts.

Hundis are classified as follows :—

1. *Shah jog*, payable to any respectable person, a *sarraf* or some other reliable and trustworthy person, who may present it to be cashed.

2. *Nam jog*, payable to the party named in the *hundi*. Such hundis are generally not cashed without security. If the identity of holder or payee is known, security is not required.

3. *Nishanki*, or a hundi accompanied by a descriptive roll of the party in whose favour it is granted. This is often resorted to in cases where the payee is not known at the place the hundi is drawn upon.

4. *Jawabi*, the hundi itself is of the usual character *Shah jog;* but the drawer at the request of the payer undertakes to send it to the drawee himself instead of giving it to the payer for presentation in the usual course. The drawee sends the money to the payee, obtains his receipt which he transmits to the drawer for delivery to the payer.

The following account of the Jawabi Hundis is taken from Macpherson on Contracts, p. 158 :—

"A person desirous of making a remittance writes to the payee, and delivers the letter to a banker who either endorses it on to any of his correspondents near the payee's place of residence or negotiates its transfer. On its arrival the letter is forwarded to the payee, who attends and gives his receipt in the form of an answer to the letter, which

is forwarded by the same channel to the drawer of the order."

5. *Sri Nishani*, a hundi drawn or endorsed by an authorized *gumashta* or agent of a firm on behalf of that firm and crossed with the name of that firm.

6. *Jokhmi*, a hundi drawn against certain goods despatched by the drawer to the drawee and made payable a certain number of days after the arrival of the goods.

A purchases from B at C a hundi payable at D in favour of A. The hundi contains a statement that it is drawn against certain goods shipped at E, and it is made payable eight days after the safe arrival of the ship at D. This is a *Jokhmi* hundi. Such hundis are rarely granted in these provinces, but most frequently in the Western Presidency.

There is yet another cross division of hundis. A hundi may be payable at sight (*darshani*) or after a certain date specified therein or fixed by custom of trade. *Nam jog* hundis may be of either character, but *Shah jog* are payable only after a certain period of usance.

Hundis of all kinds are negotiable, except the third accompanied by a descriptive rôle, in which case a transfer is *ex vi termini*, inoperative."

Hundis that are not (*darshani*) payable at sight, but after a certain specified date, are known as *miadi*. The term for which such hundis are issued depends a good deal on the distance of the places on which they are drawn from that where they are issued. But the term is never a very long one. In Agra, for instance, hundis for Calcutta and Bombay are drawn for 51 days and sometimes for 11 days. For Cawnpur the time is generally 21 days, and for Delhi, Mirzapur, Ghazipur or Benares 31 days; for other places whatever may be agreed upon.

The chief difficulty that confronts a popular bank in dealing with bills of exchange is the need it is under of

distinguishing genuine bills-of-exchange representing real transactions from paper issued for convenience only to accommodate the temporary needs of the drawer.

These latter kinds of bills do not come within the scope of the bank's operations which exclude everything in which there is any speculative element. Hundis of this class are just as common as the corresponding kind of bill-of-exchange in Europe. A man in want of money draws a hundi on himself for a term generally not less than 61 days and not exceeding 91 days, payable at the place where it is drawn. He takes it to his mahajan and gets it discounted at a rate which varies from 8 annas to Re. 1 per cent. according to the drawer's credit and according to the state of the money market. The banker either keeps the hundi himself or else acts as broker for his client, charging a certain percentage for his trouble in negotiating it and handing over the proceeds to the drawer. With this class of hundis which are hundis in name only the bank should have nothing to do.

A popular bank does not usually deal in promissory notes which exceed three months' duration. Not more than one renewal is generally granted, and a promissory note is never allowed to be outstanding for a longer period than six months. The renewal should not be granted unless some payment is made at the time the bill falls due. This payment should be sufficient to cover the interest and other charges accruing up to date and should ordinarily equal one-fourth of the original loan, otherwise the renewal should be sternly refused.

So many people dabble in hundis and promissory notes in an Indian bazaar that there should be no difficulty for a popular bank to undertake this class of business on lines already more or less familiar to the majority of its members. Its superior organisation and the amount of capital at its command should enable it to absorb a good part of the

existing business, and its established position and the banking facilities it affords should help to attract towards the town where it is located a great quantity of fresh business. The stimulus the establishment of a bank would give to local trade in a town where no bank had previously operated should also serve to bring about a large increase in genuine bills-of-exchange. The bank should only deal with its members in the matter of bills-of-exchange and so avoid all danger of arousing the enmity of outside dealers. A great bank like the popular bank of Milan with its enormous deposits finds itself obliged to deal with outsiders' bills in order to employ its constantly increasing accumulation of deposits. But this is a practice which should not be followed by a small bank in a provincial town. If outsiders in such a town want their bills discounted, it is open to them to become members; while as to accumulation of deposits there is never likely to be any danger on this score, for under our system every superfluous anna would be engaged in the work of financing affiliated rural credit societies.

The question of agricultural operations is one which should command the earnest attention of a popular banker in India. It is out of the question for a co-operative town bank to lend on mortgages for anything but a very short term unless it has a large sum available for investment in the form of fixed deposits ; but this form of investment is to be deprecated. A town bank can never hope to have the local knowledge sufficient to enable it to escape all the traps that await the unwary in Northern India when they embark in a transaction relating to land. Foreclosure of mortgage invariably involves long and bitterly contested litigation if not with the judgment-debtor at any rate with his relatives or his creditors. A small co-operative bank cannot afford to indulge in the luxury of litigation of this sort and had much better,

except in very special cases, avoid dealings in land altogether. There are equal difficulties owing to the law of distress and the multiplicity of tenures awaiting any bank bold enough to venture to lend on crops or grain. The operations of an Indian popular bank in aid of the agriculturist should be limited to two kinds :—

1*st*, the opening of cash credits for farmers, who might be allowed to give their holding as collateral security for their bond in lieu of one of the two sureties usually required. These cash credits should not extend more than six months, and should correspond with the Khareef and Rabi divisions of the Faslee year. The limitation of a credit for a single division of the year appears necessary owing to the proneness of the Indian cultivator to allow debt to accumulate during one harvest (say the Khareef harvest) on the off chance that the Rabi harvest will be a good one and enable him to liquidate his obligations. As it is desirable to eliminate every element of risk as far as possible, it should be laid down that all cash credits opened for farmers at the beginning or during the course of the Khareef period should be closed when the Khareef harvest is gathered and the cultivator has his pockets full of cash ; similarly as regards the Rabi period. Such cash credits should prove of inestimable value to the small farmer as they would enable him to purchase his seed and cattle when he wanted them and would free him from the necessity of rushing off to the money-lender between the harvests whenever he happened to be a rupee or so short. But to work these cash credits effectively either a fair amount of capital is necessary or else a certain amount of long term deposits.

2*nd*, the making of advances to rural loan societies or village banks. This we regard as the true function of a popular bank desirous of assisting agriculturists in a manner that will not only afford relief to the small culti-

vator groaning under usury but will also bring in a profitable return to the bank. Its advantages are threefold. 1*st*, its *simplicity:* the advance can be made in the form of a cash credit on the personal security of the members of the village bank and renewable every six months, thereby enabling the town bank to fully control the drawing out of the sums required by the village bank and to close down the operation whenever it does not think a fair use is being made of it. 2*nd*, its *utility:* every hundred rupees judiciously lent out in this manner should indirectly bring about an increase in the bank's deposits of several hundred rupees, as it is intended that each village bank should serve as a propaganda centre for the spread of banking ideas, and should occupy the position of a feeder to the bank's funds by in its turn collecting savings.

3*rd*. *Its profit.*—The transaction, if undertaken with care, should prove very profitable, as it is a very safe operation, and the high rates of interest prevailing in country tracts should enable the town bank to charge a fairly high rate of interest for its advances, a rate which though high ought to appear moderate in comparison with the rates actually prevailing in the villages.

As regards deposits, a popular bank recognizes several different classes :—1st, The ordinary deposit in account current, which is worked according to ordinary banking practice, by check-book and pass-book ; 2nd, deposits for a fixed term, which is a class of deposit much in favour in Indian banks ; 3rd, savings deposits. These latter are of two kinds, ordinary savings deposits and petty savings deposits.

Savings deposits are worked by means of savings books and not by cheques. Every depositor, on opening of a savings bank account, receives a pass-book. Whenever money is paid in or withdrawn the pass-book has to be produced. Every sum paid in or withdrawn has to be

entered into the pass-book by the cashier and the book-keeper. Higher interest is usually granted for savings deposits than in the case of an ordinary current account.

Further, in order to promote thrift, supposing the minimum sum permissible to be paid into a savings deposit be fixed at one rupee, the bank should institute special rules for the acceptance of sums under that amount as petty savings deposits. Sums from one anna up to a rupee can be accepted for payment into such an account, and special interest should be given in order to encourage poor people to save. When such a deposit account reaches Rs. 100, it should cease to come under the special rules for petty savings deposits, and might then come under the category of ordinary savings deposits.

Special arrangements are usually made by a popular bank for the safe custody of securities and valuables. The method followed by the popular bank of Milan is worth noting, as it would probably have as great a success in India as in Milan. The chief feature of the system is its secrecy. The safes in use are of a peculiar character, and if we are correctly informed, unlike those in use in any large bank in Europe. Each safe is fitted with pigeon-holes into which little iron boxes are locked. The boxes are rented out, and the key which locks the box into the safe remains with the person who has rented the box. When the owner wishes to open his box he files an application in the prescribed form, gives in his key, and the box is unlocked from the safe and handed over to him. The box itself is under double lock, one key being with the bank, and one, that of a padlock, with the person who has rented it. When the box is handed over to the lessee, the bank official opens his lock and the lessee opens his padlock, and then the box is open. The lessee is also allowed to place his seal on the box if he chooses. A retiring room is provided where the box can be opened.

The utmost privacy is thus secured, and anyone wishing to have a safe place for letters, papers, ornaments or securities can obtain it by renting a box in which he can deposit his valuables without anyone knowing what they consist of. The bank at Milan receives securities and valuables for safe custody like any other bank, but this system of private boxes was only started tentatively a few years ago, and the immense success it has met with shows how people appreciate this method of deposits. The charge for the use of a box is very moderate and varies according to its dimensions; but, though the charge is low, the bank finds that it now derives from its safes a large and constantly increasing revenue.

A few general remarks remain to be added on the methods of a popular bank. It works at the outset with a very limited capital, and like all banks depends a great deal on its deposits for extending its sphere of operations. The smallness of the capital necessitates the elimination as far as possible of all operations from which capital cannot be readily withdrawn when wanted. The preference of a popular bank is for discounts of short-term bills or loans for small sums for short terms. All other business should depend upon the relative strength of the bank's capital and the proportion fixed deposits happen to bear to floating accounts and savings bank deposits withdrawable at sight or at one or two days' notice. The utmost rigor must be observed by a co-operative bank towards defaulting members; they should be expelled without mercy. Similarly, punctuality must be insisted upon in all dealings between the bank and its members. It is impossible for a small bank with very limited funds to be carried on with success, unless all payments due are made at regular and proper times. It is also considered very necessary for the bank authorities to be in touch with a member as much as possible. Whenever pay-

ments are made by instalments, the instalments are fixed at frequent intervals, in order to enable the bank to keep in contact with the member. In this way it is found possible to keep to the forefront what is called the moral education of the borrower, for a popular bank aims not only at lending money, but also at improving the borrower's welfare, both morally and materially.

The site for a popular bank should always be chosen in or near the busiest part of the bazaar. In choosing a suitable house, two things should be borne in mind: 1st, that there should be free ingress for the public; and 2nd, that the privacy of the bank officials should remain undisturbed. In Italy the desired object is generally obtained by placing the bank's offices in a courtyard. On one side there is the entrance, while on the other three sides of the courtyard, but railed off from the public, sit the clerks. The space in the centre of the courtyard is free to the bank's clients to move about in, while the clerks behind their railing or partition are able to communicate with each other without leaving their office. In Northern India most houses in the town have courtyards on much the same plan as in Italy, and the choice of a house of this description for the bank's offices would do away with the necessity of any great expenditure in adapting the premises to the needs of a bank. But at the beginning everything may well be done humbly. All that is wanted are two rooms,—one for the office and one for the meeting of the committees. If the bank succeeds there is nothing to prevent it from being lodged in a palazzo like the Bank of Bologna, or in premises of grandiose proportions like the Bank of Milan.

CHAPTER III.

The Village Bank.

The village institution which will be found described in this chapter is supposed to be in direct connection with the town bank. But there is nothing to prevent it from standing alone and gradually freeing itself from dependence on borrowed funds, whether advanced by a friendly bank or a philanthropic landlord, and obtaining the power of financing its own needs out of the savings of its members. Our system contemplates that it should be subordinate to the town bank, though preserving an autonomous character, that all funds which it cannot supply itself should be obtained from the town bank, that its operations should be guided by the advice of the town bank's inspector, that its accounts should be subject to his scrutiny; for in this way only do we think it possible to secure a certain uniformity in operations and a regularity in accounts, which could not under ordinary circumstances be expected from a society whose members would belong for the most part to the farming class and could not be assumed to have the experience requisite to guide them in carrying out even simple banking transactions.

The principal writers on the subject of village banks are now agreed that the essential attributes of a village institution may be summed up as follows :—

1*st*.—There must be unlimited liability; the members must be jointly and severally responsible for the obligations contracted by their society.

2nd.—The area in which the village institution works must be well defined and restricted to manageable limits.

3rd.—Members must be carefully selected, and none admitted except those whose characters are above reproach.

4th.—All services in connection with the bank's administration must be gratuitously rendered.

5th.—There must be no paid-up capital.

6th.—The reserve fund must be indivisible.

These necessary conditions for the establishment of a village bank have all been evolved as the result of long years of experience and actual practice in Continental countries. A few words will show that there should be no obstacle in adopting them for a village bank in Indian environments.

1st.—Unlimited liability, as has been observed before, presents no difficulties in a village owned by a co-parcenary body. Joint responsibility is understood in every village where there are co-sharers. Solidarity, according to Leone Wollemberg, is the backbone of village credit associations. Here, in Northern India, there are no initial difficulties to overcome as in Italy and France, to convince the villager of the utility of association with joint responsibility. The benefits and drawbacks to be obtained from its adoption are within the comprehension of every villager. With a joint family system and with a joint proprietary system already in the country, there should be no difficulty in acclimatizing a joint credit system.

M. Rayneri has pointed out that although unlimited liability is the basis of the village banking system, everything else starts with a limit. The maximum amount of operations in which the bank can engage during the year is fixed beforehand, and so is the maximum amount of loan which any individual member can obtain. The member of a

village bank consequently knows that, though his liability is nominally unlimited, the sum total of his liability cannot exceed the sum total of the engagements which the bank is permitted to undertake during the year. His joint responsibility in no way differs from that of a co-sharer in an undivided village, whose joint responsibility does not extend beyond the sum total of the Government revenue and cesses assessed upon his village during the term of settlement.

2nd.—The restriction of area is even more necessary in India than on the Continent. Village life in the North-West Provinces is extremely self-centred and contained. The villager looks on inhabitants of surrounding villages with more or less distrust, unless they happen to be of the same caste as himself. Every co-sharing village being to all intents and purposes a small self-governing republic, the area of the village bank's working must be restricted to the area of the village. Outsiders from neighbouring villages should, on no account, be allowed to belong to the bank, unless the co-sharing body of the outside village is of the same caste as that of the co-sharers in the village where the bank is situated. The restriction of area is imperatively necessary to secure the proper working of a bank, the efficiency of which depends on each member being perfectly well acquainted with the other members, and on each member being able to watch the working of the loans in the hands of his fellow-members.

3rd.—The condition that members should be of good conduct and repute, requires no particular comment. What is wanted in an Indian village is to pick out all the best of the co-sharers as the original members of the bank. No doubt the co-sharers, as we have said before, would all get their friends to describe them as of good repute, for there is considerable laxity in village life as regards the

construction to be put upon the term good conduct, the average villager being inclined to tolerate any of his fellow-villagers who may happen to be bad characters so long as they confine their depredations to outside villages and do nothing wrong in their native place. But a check against laxity of this sort is provided by the enforcement of the rule of joint responsibility. It then becomes the interest of each member to keep out from his society any person who, there is reason to believe, will probably turn out a bad bargain and cause loss to the bank.

4th.—Gratuitous service is a principle generally recognized in village life, and no co-sharer would be likely to charge for his services.

5th.—The condition that there should be no paid-up capital has as its necessary corollary the abolition of all dividends. Each member's subscription is limited to his personal liability. In the North-West Provinces there is the greatest dislike to money subscriptions. Any society beginning its operations in a village by asking a large money subscription would be looked on by the co-sharers with mistrust, and the more ignorant ones would probably think it was a veiled method of levying an additional cess on them. The absence of paid-up capital would ensure an unprejudiced reception of the new society in the village, and this condition is one of the primary requisites if success is looked for.

6th.—The indivisibility of the reserve fund would be an innovation, but not one inconsistent with the ideas prevailing among Hindus on the subject of family property. Even nowadays no member of a joint family can partition or will the ancestral property as he pleases. The inheritance of family property is regulated by laws which no head of a joint family can override. The reserve fund occupies the same relation towards the members of a credit society, as the ancestral property does towards the

members of a joint family, with this exception that the members of the credit society voluntarily relinquish the right, if they ever separate, of dividing the reserve fund among themselves.

The constitution of a village bank is necessarily much simpler than that of a town bank. Everything must be arranged on as simple a scale as possible, and in such a manner as to be intelligible to the least educated members. The administration is modelled to a certain extent on that of the town bank. It consists of three bodies:

1. The General Assembly.
2. The Council of Administration.
3. The Committee of Control.

To these must be added one employee, the accountant secretary.

The General Assembly consists of all the members of the bank. The co-sharers of the village community are in the habit of meeting together to discuss their affairs in the village chaupal, so that there is no reason why the co-sharers who happen to be members of the credit society, should not be able to meet together in the same way and discuss the affairs of their bank.

The Council of Administration should consist of five members. The old Hindi saying is that, *Panch mén Parameshwar*, and this number is one that inspires confidence in the village mind. The Council would thus be in an Indian village a permanent Punchayet. It will avoid confusion if it is referred to in future as the Bank Punchayet. Every co-sharer will be able to understand the benefit derived from electing a Punchayet for the general management of the bank's affairs.

The Committee of Control should consist of three members. Just as it would be better to have the Punchayet composed of members of the co-sharing class, so it would

facilitate control if the members of this Committee were outsiders. By outsiders are meant persons like the village school-master, Government pensioners residing in the village, or members of the family of some neighbouring landlord who perhaps has a share in the village, or members of the family of some bunnia who has bought his way into the village, or tradesmen and shopkeepers doing business in the village. There are generally some ten or twelve men of this sort to be found in every village with a population ranging from 500 to 2,000. There is no parallel to such an institution as a Committee of Control at present in Indian life, but the practice of supervising accounts is one already familiar to the villager. Every North-West village possesses an accountant, whose duty it is to keep up the Government registers, and to write up the profit and loss accounts of the co-sharers. His work is checked by a 'kanungo' known as the supervisor kanungo (Girdawar kanungo), whose chief duty it is to go round checking the registers of the hundred or so patwaris resident in his circle. The kanungo is not an official invented by the British Government, but like the patwari (the village accountant) whose papers he checks, he is one of the oldest institutions of the country. If the Committee of Control is denominated the Committee of 'Janch-o-Nigrani,' the duties which they have to perform will come at once within the comprehension of the ordinary co-sharer.

There remains the Secretary Accountant. Every village already possessing an accountant, the duties of such a person will be understood without difficulty. He will have to keep up the simple registers in use and conduct the correspondence with the town bank. As most village patwaris have several brothers or sons or uncles who live in their houses and assist them in their accounts when they have nothing else to do, it is safe to conclude that the patwari's family will be able to furnish a member

perfectly capable of posting up the small transactions of a village bank in its infancy.

The above slight review of the fundamental conditions for the constitution of a village bank reveals no insuperable stumbling-blocks in the way of setting up such a bank in an Indian village. But as the system advocated is such a simple one, it is all the more necessary to define with the utmost precision the exact scope of the bank's operations, the nature of its methods and the part taken by each member or administrative body in its proceedings.

The first obligation on any one wishing to found a village bank is to lay before the persons whom he has persuaded to join a clear summary of the motives which have led to the creation of the bank. The next step is to explain the rules which will govern the proceedings of the society in the future. Here, again, the practice followed in revenue matters will prove of service and may be taken as a model. It is usual to embody all the customary law and usage of the village community into a succinct document known as the wajibularz (that which is worthy of relation) which serves as a sort of preface to the record-of-rights drawn up at the time of settlement. The rules contained in the wajibularz practically serve the same purpose as the rules that would be drawn up for a credit society, the object being to have a handy and authoritative reference available for the procedure to be followed in all matters affecting the members which are likely to form a subject of dispute. When the rules have been explained it would be well to adjourn the proceedings for a day, as villagers prefer to talk over any proposed rules among themselves for a few hours; and the next day if they have found any difficulty in any rule or require further explanation on any point, they can have an opportunity for making known their doubts and getting the explanations they require. When the rules have been fully mastered,

the signatures of the members accepting them should be taken, and the society will be deemed to be constituted.

It would perhaps be advisable to levy a small entrance fee on all members joining the society. It should be very small in amount, four annas payable either in cash or grain being a sufficient sum. The object of levying this entrance fee would be to give the reserve fund a start. It would also serve to give the members their first lesson in thrift and self-denial, and would show them how simple it is to raise a comparatively large sum by clubbing together the petty subscriptions of a number of poor people.

The election of the Administrative Punchayet and of the Committee of Control is the first step that the General Assembly of the members has to take. The head of the Punchayet would hold the position of President of the bank, and care should be taken to elect the most influential man in the society to this post. The appointment of the Accountant Secretary rests with the Punchayet.

The General Assembly should then proceed to pass resolutions to the following effect :—

1. A resolution fixing the maximum amount of liabilities that the bank can undertake during the ensuing twelve months.

2. A resolution fixing the maximum amount of loan that can be granted to any individual member.

3. A resolution fixing the rate of interest to be charged on loans.

4. A resolution fixing the rate of interest to be charged on deposits.

All resolutions should be carefully recorded by the Accountant Secretary in a book kept for the purpose and should be countersigned by the president.

The first two resolutions would turn very much on the amount of money that the town bank is willing to advance to the society at the outset. At first operations

would be very small, as it takes about a twelve month for villagers to get accustomed to the working of a bank in their midst. Small loans might be granted at the beginning for as short a term as possible in order to acquaint the members with the bank's methods. In this way a small advance, such as a hundred rupees, might be turned over several times in the first year's operations, and at the beginning of the second year, when confidence has been acquired in the bank and its system, operations might be taken on a more extended scale.

As regards the rates of interest that on loans would necessarily be higher than that on deposits. The members who have no immediate intention of borrowing may be trusted to take good care that too low a rate would not be charged. The rate charged by the town bank on its advance would indirectly affect the rate of interest charged by the village bank on its loans. The town bank would charge at least one per cent. more on its advance than the rate of interest it allows on its deposits. The village bank in its turn, if working with borrowed capital, would have to charge slightly more than the interest charged on the town bank's advance, in order to obtain a profit sufficient to cover incidental expenses and to have something to carry to the reserve. There is no object in charging too low a rate to start with, as nothing helps a bank more than the creation of a strong reserve as quickly as possible, and it must always be borne in mind that all profits in the village bank are carried to the reserve. Nor is it necessary to try and attract deposits by too high a rate of interest. The villagers are unaccustomed to deposit money at all, and they are not likely to be led to put money in the bank in expectation of high interest. What is wanted in the village is a safe place for leaving money in temporarily. If the bank can get the villagers to understand that when they have a little surplus money from the sale of the

harvests, they cannot do better than leave it in the bank and draw it out when they need it, the first step forward will have been made in accustoming the villager to the idea of saving. It is not interest on deposits that will attract the better class villager at the beginning to leave his money in the bank. What he will appreciate and what he will be quick to find out is that payment through the bank of any particular debt out of money at his credit will save him from possible dispute in the future, as the entries in the bank's books will help to safeguard him from claims for debts already paid; while the creditor on his side who has to do with a tricky debtor is soon likely to grasp the advantages of making the debtor pay his instalments into an account at the bank. The advantages of a banking account can best be illustrated by the case of a mortgage-deed. There is no commoner form of hard-swearing in an Indian Court than that which is indulged in by one or other of the parties to a bond when it is in dispute whether or not any consideration passed, as alleged in the terms of the document, at the time of the execution of the deed. Nine out of ten of these cases could be avoided if the money had been paid into a banking account when the deed was executed. But in the absence of any additional independent documentary evidence, such as could be afforded by a banking entry, it often happens that one or other of the parties feel they can wriggle out of the terms of the deed if they swear harder than their opponents. The setting up of a bank in a village should prove a potent factor in bringing about a decrease in the class of civil suit relating to disputed bonds. Once the villagers have grasped some of the advantages of having an organized banking system in their midst and when from the idea of keeping current accounts in the bank they have advanced to the idea of keeping savings accounts, then it will be the duty of the bank to encourage the growth of this feeling by giving as

high an interest for savings deposits as it is in its power to afford.

There is a small class of people in every large village, to attract whose savings special efforts should be made by the bank. The class in question is composed of careful saving cultivators and co-sharers who add a little money-lending to their ordinary pursuits, because they have no other means of making a profitable use of their money. It should be the duty of the bank to endeavour to put forward conditions for fixed deposits, attractive enough to induce some of the people of this stamp to leave their money with the bank at fixed deposits on high interest in preference to lending it out to their neighbours. Once the bank has inspired confidence, there should be little difficulty in inducing this small but important class to trust their money with it. The bank being purely local in character, the money put on fixed deposit is practically lent by the villager to his fellow-villagers; it is always under his eye, for it is employed only in the village, while his money is much safer with an organized body than it would be with a single individual. All the bank has to do to obtain this kind of deposit is to make it more profitable for the small village capitalist to leave his money at long term deposit than to lend it out to individual neighbours.

The duties of the members towards the bank and towards each other, their rights and responsibilities, as well as those of the office-bearers, may be summed up as follows :—

Members have the right—

1. To take part personally in the General Assembly. They are not allowed to be represented by proxy, and if they give no reasonable excuse for their non-attendance are liable to a small fine by the Punchayet.

2. To obtain loans according to the manner prescribed in the rules of the bank.

3. To deposit savings which will obtain interest from the bank.

4. To watch and control the use of a loan granted to fellow-members.

5. To come to the Punchayet for settling personal disputes of any kind with fellow-members.

6. Members are under the obligation—

1. Of being jointly and severally responsible to the extent of the whole of their property for the liabilities of the bank towards third persons, and in equal shares towards each other.

2. Of observing the rules and regulations of the bank, attending the general meetings, and aiding by every means in their power to push on the interests of their society.

A person who wishes to obtain admittance to membership submits an application to the Punchayet, which has the power of accepting or rejecting the application. In the latter case an appeal lies to the General Assembly. A member loses his rights by resignation, death, change of residence or exclusion; the power of exclusion lying in the hands of the Punchayet. Members who have resigned or are turned out are held liable for debts contracted by the society up to the time of their leaving it. In Italy such members' liability towards third persons continues for two years after their membership has ceased.

The duties of the Punchayet cover all the ordinary business of the bank which is not expressly reserved to the General Assembly. The head of the Punchayet is the president of the bank. It is usual in a village bank to elect the wealthiest men for the post of members of this Council, for, as everybody's liability is the same, they have more to lose than the poorer members of the bank and are consequently likely to act with more caution than others. Upon the Punchayet falls the duty of bor-

rowing money within the limits and upon the terms fixed by the General Assembly, of making loans to members, of fixing the expenses that may be incurred in any particular operation, of appointing the accountant secretary and of summoning the General Assembly. The Punchayet should meet ordinarily once a week, the bank being open to transact business once a fortnight.

The duties of the supervisors are to verify all accounts, to see that loans are being put to the use for which they were granted, to see that the Punchayet's proceedings are conducted according to law, and to decide finally on all appeals that may be presented to it by members who are discontented with orders of the Punchayet. The supervisors have also the power to summon the General Assembly and refer any matter to it for decision.

The duties of the General Assembly have been already touched upon as regards its power of fixing the amount of interest, etc. All power is centred in this assembly. It elects all the office-bearers, fixes the maximum amount of operations in which the Punchayet can engage during the year. It ordinarily meets twice a year, but no meeting can be held unless at least half of the members are present.

The duties of the accountant comprise those of secretary at the meetings of the Punchayet and the General Assembly.

The operations of a village bank consist solely of granting loans to its members. Everything is subordinate to this. The interest on the deposits will be regulated by the demand there is for loans, for if there is little demand, there is no need to fix a high rate to attract deposits and *vice versâ*. The chief object of the village bank is to enable its members to obtain long term loans with safety at a moderate interest. A man who borrows twenty rupees to make an embankment round his rice-field has no hope of getting in a few months an increase of profit from his field sufficient to re-imburse him for his

outlay. He is quite satisfied if he can get an increase in the profits from his field of three or four rupees a year. A loan of this description he cannot reasonably be expected to pay back in less than five years. This is an extreme case because it is one of land improvement from which the returns are always the slowest though in the long run the most profitable. But the majority of the loans will probably be for over six months. As the bank is not hunting after dividends, it does not matter to it how long a loan is outstanding, so long as it is able to obtain payment in instalments and the credit of the borrower remains good. But it would be well to lay down a rule that any one wishing to obtain a loan for a longer period than two years should ordinarily be expected to give landed as well as personal security for repayment. No loan in a village is likely to be needed for more than two years, unless it is connected with land improvement, and if this is the case, it is only fair that the co-sharer or cultivator borrowing for the purpose of improving his land should give the bank the best security that it is in his power to offer.

The system of granting loans in vogue in Italian village banks, and one which might well be followed in an Indian village bank, is based on three months bills periodically renewed. Supposing a person wishes to obtain a loan for two years, he signs a bill agreeing to pay within three months date. The bill can always be renewed at the end of the time, provided the interest is paid and, if possible, a small portion of the loan. The advantages of a three months' bill are very great in comparison with the granting of a loan for the whole period repayable by instalments. In the latter case, if the borrower got into arrears, the bank would be in the awkward position of having to dun the defaulter continually. A village bank cannot afford to go to law. It is much better to lose the money than to induce a slack

feeling among borrowers that as a last resource the bank has a legal remedy against them, and therefore they need not hurry to pay up their instalments. With a bill due at the end of three months the bank is master of the situation. If the borrower is behaving in an unsatisfactory fashion and not putting the loan to the use intended, the bank can refuse renewal, thereby putting it in its power at once to take legal proceedings against the defaulter for the whole amount, and affording a first-class object lesson to the other members whose bills are falling in for renewal. The bank further secures two advantages. It can always rediscount acceptances of this kind if short of funds, and it is enabled to force the borrower to observe punctuality in his payments. Three months is a convenient period, and indeed a longer period than that is rarely granted by an Indian revenue Court to the village judgment-debtor, in an arrears of rent-decree, for paying into Court an instalment of the decree money. The bank should always reserve to itself the right at the time of renewal of requiring new sureties in case the ones originally given have left the village or have died or have become insolvent.

Loans granted on bills renewable every three months will be of three kinds :—

1st.—Loans for very small sums not exceeding five rupees granted on the note of hand of the member borrowing, no other security being required; the loan being payable in six months.

2nd.—Loans for a term not exceeding two years, granted on note of hand with sureties, the bills being renewable every three months.

3rd.—Loans for a term not exceeding ten years granted on a formal bond with hypothecation of the borrower's property.

Loans are never granted except for productive purposes; the object for which the loan is borrowed must be clearly set forth, and must have the approval of the Punchayet, and the borrower is expected to bind himself to employ the money in the manner indicated.

In an Indian village bank the following would be the procedure for any member desirous of obtaining a loan.

He would first go to the secretary accountant, and if a literate man would ask him for a form, if illiterate he would ask the accountant to fill it up for him. This form must specify the amount of the sum it is desired to borrow, the use to which it is intended to apply the loan, the method and time of repayment which it is proposed to follow and the security the borrower is able or willing to offer.

When the form or petition has been filled up, the applicant must take it to the Punchayet. The Punchayet will reserve an answer till the next meeting, and in the meantime take steps to make the necessary enquiries as to whether the petitioner really needs the loan, whether he is able to give better security and whether he is likely to employ it in the manner indicated. If the members of the Punchayet are satisfied that the loan can be granted on the terms proposed by applicant then they will write "approved" on the back of the petition; if otherwise, they will endorse on it the terms on which they are willing to grant the loan or else summarily reject it. In any case the petition with the Punchayet's order on the back of it will be handed back to the applicant. If the application is approved, or if the applicant is willing to fall in with the modified terms proposed by the Punchayet, he will take the petition back to the accountant and have the necessary entry made in the bank's registers for the issue of the loan to him.

When a loan has been granted and the necessary entries have been made in the bank's registers, there will still remain the handing over of the amount of the loan. In Europe this is an act of little consequence, but in India the handing over of money is regarded as an important act, and it is in the bank's interest to surround it with as much solemnity as possible in order to raise the prestige of the bank in the eyes of the whole village. In our opinion the proceedings should be conducted in the same manner as if the money was handed over in the presence of a Registrar. The accountant or the member of the Punchayet acting as cashier should conduct the borrower into the presence of the Committee of Control. The petition for the loan and the orders of the Punchayet endorsed upon it should then be read over. The money should next be produced by the accountant or the acting cashier and handed over to the borrower. The latter should be asked if he acknowledges receipt, and on his doing so the fact of the acknowledgment should be noted on the back of the original petition and signed by the Committee of Control. The petition should then be handed over to the accountant to be filed for future reference.

A question arises as to how the bank would keep the cash in hand necessary for advancing the loan. It is undesirable that any cash should be in the hands of any member of the Punchayet for a moment longer than is necessary. It is assumed that the village bank is working in connection with the town bank. Holding a cash credit corresponding to the amount the town bank has agreed to advance, there is no need for the village bank to keep a large sum in hand. An interval of at least a fortnight would always elapse between the first application for a loan and the granting of it. This would give the village authorities ample time to obtain

sufficient funds from the town bank to enable them to meet the demand. But it will always be necessary for the village authorities to have a small sum in hand, for money will be coming in when instalments are due and money will be wanted for contingent expenses. To avoid keeping money in the village the bank should open an account with the Post Office Savings Bank. Under the rules of the Indian Post Office public accounts can be opened for an amount not exceeding ten thousand rupees. These public accounts are for the use of secretaries of benevolent, provident and other societies provided that the societies are not amusement clubs. Any society whose objects are approved of by the Postmaster-General can obtain permission for the opening of a public account. The Indian Post Office is conspicuous for the breadth of its views and the enterprise of its undertakings, so that it is improbable that the Postmaster-General, if properly approached, would refuse permission to a *bonâ fide* village credit society to open an account at the nearest post office for the deposit of its loosecash. The deposits could be withdrawn on the signatures of the President of the Punchayet and the secretary accountant. The village bank would be open once a fortnight, and all that the bank authorities would have to do would be to withdraw from this amount, the day before the meeting, money sufficient to defray current expenses, while at the end of the morning's proceedings all small sums that had not been sent in to the town bank would be taken to the post office and deposited there. In this way the responsibility of the bank's office-bearers would be reduced to a minimum, and no money would be left in the hands of any of the village authorities out of business hours.

Some villagers might prefer to have their loans in the shape of cash credits in order to enable them to take out their money piecemeal instead of in a lump. Cash credits

could not be undertaken by a village bank till it had become well established, and the office-bearers had become experienced in routine. But there is nothing to prevent the village bank in such a case from making arrangements for the cash credit to be opened at the town bank. The person in whose favour the cash credit was opened would then have all the advantages of a cash credit in a well equipped bank, and it could always be arranged, if due notice was given, for any particular sum to be forwarded to the village bank and drawn by the holder of the credit in the village on the day the village bank is open for business.

As regards the method of paying in and drawing out money two courses are proposed. In the first place, the accountant should have a receipt book in triplicate such as is employed on some large estates in the North-West Provinces. One receipt remains in the book, one is given to the person paying in money, and one is sent to the town bank for purposes of check. Whenever an instalment on account of a loan is paid in, a receipt from this book should be given, the receipt being signed by the accountant and countersigned by a member of the Punchayet. Until the bank is large enough to employ a cashier it would be well to employ this receipt book for acknowledging any sum paid in as deposit. In the second place, it is proposed that every depositor or holder of a loan or credit account should at the time of opening his account be furnished with a pass book. It would be incumbent on the depositor to present this pass book whenever he made any payment to the bank or drew out any money from it. An entry corresponding to the amount paid in, or taken out would be made by the accountant who would also once every three months enter into the book the amount of interest due or payable. Each entry should be countersigned by the holder of the account. The head-

ings of the deposit form of pass-book would be as follows :—

Signature of accountant with date of entry and particulars of the deposit or withdrawal.	Amount paid in.	Amount with-drawn.	Balance.	Signature of holder of account.
Example.	Rs.	Rs.	Rs.	
At 8-30 A.M., on 20th August 1889, Ram Lal in presence of Luchman Thakur deposited this amount. (Sd.) JIA RAM, *Accountant.*	10	......	+10	(Sd.) × Ram Lal his mark.
At 10 A.M., 30th August 1899, this amount was withdrawn by Ram Lal in presence of Sitla Buksh. (Sd.) JIA RAM, *Accountant.*	......	4	+6	(Sd.) × Ram Lal (his mark).

The loan pass-book would be as follows—

Signature of Accountant with date of entry and other particulars.	Amount advanced by bank and amount accruing by interest.	Amount paid in.	Balance due.	Signature of holder of the loan.

The cash credit form would be the same as that given in the last chapter for use in the town bank.

With a receipt and an entry in his pass-book to show for each payment, it will be the member's own fault if he allows himself to be cheated by any bank office-bearer. The receipt may be deemed superfluous, but it is a verv useful countercheck, for otherwise the accountant might find it possible to manipulate the accounts to the bank's detriment.

A great obstacle to sound business methods might be removed if, in addition to the mark or signature of the

bank's client in the pass-book, his thumb impression was also made a necessary part of the signature. Indian villagers are very prone to deny their signatures, especially if their mark only has been recorded. By insisting on a thumb mark, as is done in the registration office, the villager would have it out of his power to challenge the genuineness of his signature and a fertile cause of dispute and perhaps litigation would be avoided. The importance of putting temptation out of the reach of the ordinary villager cannot be overrated.

The registers kept up by the Accountant Secretary should be as few and as simple as possible. In Europe the multiplication of account books in a village bank is looked on as undesirable in view of the difficulty of getting villagers to understand the methods of book-keeping. In Northern India the joint family system and the village community system necessitates the keeping up of complicated accounts, and there is no difficulty in finding in any village men acquainted with the country methods of book-keeping. All that has to be borne in mind in introducing registers for the use of a village bank is the avoidance as far as possible of all registers which have not their counterpart already in use by the joint family or village community. The principal registers to be kept up by the accountant are as follows :—

1. The register of members.
2. The cash book.
3. The ledger.
4. The minute book.

These registers correspond roughly to the Khewat, the Siaha, the Bahikhata and the Roznamcha, all kept up by the *patwari* in every village in the North-West Provinces.

The register of members.—This contains a list of the members of the bank, and shows any changes that take

place by death, resignation or exclusion. It corresponds roughly to the Khewat which is a record of the rights of each co-sharer in the village community. Just as the Khewat is preceded by the wajibularz, so this register should be preceded by a paper containing all the rules of the society up to date. The signatures, seals or thumb impressions of the members should be shown against their names.

The cash book.—This contains entries showing all payments and incomings. As far as possible it should be modelled on the cash book prescribed by the Board of Revenue for use by the village accountant. The form of the cash book is as follows :—

PART I, RECEIPT.									PART II, EXPENDITURE.							
				ON WHAT ACCOUNT.									ON WHAT ACCOUNT.			
No. of voucher.	Date of entry.	Name of payer.	Amount paid.	Deposits.	Loan instalments.	Interest on loans.	Sundries.	Remarks.	No. of voucher.	Date of entry.	Name of payee.	Amount paid.	Deposits withdrawn.	Loans issued.	Sundries.	Remarks.
1	2	3	4	5				6	1	2	3	4	5			6

The ledger contains the entries relating to each individual member's accounts. Each member should have a separate page in it. It is modelled on that in use in the village community showing the holdings and accounts of each co-sharer and cultivator. The form of the account book is as follows :—

VILLAGE BANK OF..........

In account with........................... *Interest at 6 per cent.*

No. of account.	Name of member.	Demand including Interest.				Payments into the Bank.				Balance at end of Fortnight.		Remarks.
		On what account.	Date of original demand.	Amount due.		Date.	On what account.	Amount.	Interest allowed by bank.	Credit.	Debit.	
				Principal.	Interest.							
1	2	3	4	5	6	1	2	3	4	5	6	7
				Rs. A. P.	Rs. A. P.			Rs.				
1	Lachman, son of Pitambar.	On account of loan.	1st January 1895.	20 0 0	3 0 0	2nd January 1896.	On account of loan instalment.	3	..			

20

The minute book contains all the resolutions of the General Assembly and those of the Punchayet. Separate paging is given to the resolutions passed at each meeting. It corresponds roughly to the Roznamcha, which is a diary in which the village accountant enters all the orders he has received from his superior officers and anything worthy of note that has happened in the village.

Every fortnight a balance sheet should be prepared and published in the village for the information of any villager who cares to consult it. This balance sheet is prepared from the registers abovenamed and shows the exact financial state of the bank. It should be in the following form :—

VILLAGE BANK...........

Balance sheet for the fortnight ending..................18.....

Receipts.	Rs.	A.	P.	Expenditure.	Rs.	A.	P.
1. Deposits ...				1. Deposits repaid ...			
2. Advances from the town bank ...				2. Advances repaid ...			
3. Loans repaid ...				3. Loans issued ...			
4. Interest on loans ...				4. Carried to reserve ...			
5. Drawn from reserve...				5. Miscellaneous ...			
6. Miscellaneous ...				6. Paid into the Post Office Savings Account ...			
Total received ...				Total paid ...			
Balance ...				Balance ...			

ASSETS AND LIABILITIES.

Assets.	Rs.	A.	P.	Liabilities.	Rs.	A.	P.
1. Cash in hand ...				1. Deposits in hand			
2. Loans outstanding				2. Interest due on deposits ...			
3. Interest on loans to date ...				3. Debt on account of advances from town bank ...			
4. Cash in Post Office Savings Bank ...							
5. Reserve Fund ...							
Balance ...				Balance ...			

A copy of the fortnightly balance sheet should be sent to the town bank, together with a detailed account of all payments and receipts. Each separate item of receipt should be supported by a voucher, the voucher being one of the triplicate forms of receipt recommended for use whenever money is paid in. There is no need to send in vouchers for expenditure items. It is important that as many checks as possible should be provided over money paid in, and the utmost care is necessary to see that it is carried to its proper head of account. The expenditure side of the accounts does not present so much difficulty. If a detailed list of the items of payment is sent in, the town bank inspector's check of accounts on the basis of this list will suffice to prevent any wrong entries of expenditure items. The committee of supervisors who are on the spot may be relied upon for detecting any unauthorized payments. One extremely useful purpose served by the detailed account is that it compels the accountant to keep all his accounts written up to date. Two other registers are also recommended for use, though not absolutely necessary. They are as follows :—

(*a*) The register of borrowings.

This register contains details of all sums borrowed by the village bank for its operations.

(*b*) The register of loans to members.

This register contains full details of all loans granted to members ; it shows why they have been granted and what has happened to the loan. The forms are shown on the two following pages :—

Form A.

Date of borrowing.	Serial number.	Lenders.	Date when it falls due.			Rate of interest.	Amount borrowed.			REMARKS.
							Rs.	A.	P.	
1897.			Year.	Month.	Day.					
1st January ...	1	The town bank.	1897	April	1	4 per cent.	100	0	0	Paid in full.
1st June ...	2	Do.	1897	Sept.	1	4 per cent.	50	0	0	Renewed for 3 months.

Form B.

Date of entry.	Serial number.	Borrower.	Sureties.	Object of the loan.	Amount.	When due.	When paid up.	REMARKS.
1897.					Rs. A. P.	1897.		
1st January ...	1	Luchman...	None, on his own security.	Purchase of seed	5 0 0	1st April ...	1st April ...	Paid to cashier.
5th „ ...	2	Anup ...	Ratte, Thakurdas	Purchase of a bullock.	15 0 0	5th April ...		Renewed for three months.

It would be well for the town bank to supply the village authorities with a small 'ready reckoner' table for the calculation of interest. This would save mistakes on the part of the accountant which might afterwards be difficult to rectify. The table is in the appended form. It shows the interest payable on Rs. 100 at 4, 4½, 5, 5½, 6 per cent. for 1, 5, 10, 15, 20, 25, 30 days.

Days.	At 4 p./c.			At 4½ p./c.			At 5 p./c.			At 6 p./c.			Days.
	Rs.	A.	P.	Rs.	A.	P.	Rs.	A.	P.	Rs.	A.	P.	
1	0	0	2	0	0	2	0	0	2	0	0	3	1
5	0	0	10	0	1	0	0	1	1	0	1	4	5
10	0	1	9	0	2	0	0	2	2	0	2	8	10
15	0	2	8	0	3	0	0	3	4	0	4	0	15
20	0	3	6	0	4	0	0	4	5	0	5	4	20
25	0	4	5	0	5	0	0	5	6	0	6	8	25
30	0	5	4	0	6	0	0	6	8	0	8	0	30

About once every three months the accounts should be examined minutely with the help of the town bank inspector, and an account made up to find out what profit or loss the village bank has sustained in the quarter. If the registers above given are in use, there should be no difficulty in finding the total loss or profit. Any country shopkeeper, as the registers are in a form familiar to him, could extract the profit or loss account in a few minutes. But it would always be as well to have the skilled assistance of the town bank inspector, for, as the village bank extends its operations, questions are bound to arise, as whether certain items should be counted in as assets or written off, and similar difficulties are likely to be experienced as to the correct estimate to be made

of certain liabilities and the manner in which they should be allowed to be set off against the profits. But in the beginning of the village bank's existence and for some time after, the transactions are likely to remain of the simplest character imaginable.

The best indication of the village bank's progress is afforded by the state of the reserve. This absorbs all profits, and the rate of its growth gives a fairly accurate idea of the success the bank is attaining. The reserve should be invested in government paper by preference or in any other sound security and left in the hands of the town bank. In this way the village bank will always be able to draw on its reserve in a convenient manner, as the town bank would find no difficulty in allowing overdrafts to the full market value of the security in its hands, and the interest on the stock could be drawn at head-quarters and credited to the village bank's accounts with the minimum amount of trouble to all concerned.

In the above remarks frequent mention has been made of the town bank inspector. This office-bearer has nothing to do with the internal affairs of the village bank. He represents the interests of the town bank, and his control over the village bank's affairs is limited to the safeguarding of the interests of his own bank. The interests of the town bank and the village bank are to a large extent identical. It is to the interest of the town bank, if it has advanced money to the village bank, to see that the affairs of the latter institution are well-managed, and it is to the interest of the authorities of the village bank to see that its affairs are properly conducted, in order that the confidence of the town bank may be retained and its advances continued. The occasional presence of a trained member of the town bank in the village cannot fail to exercise a beneficial influence in keeping the village authorities up to the mark. Nor is the visit of the inspector the only kind

of relation that should exist between the two banks. If the village bank keeps its reserve with the town bank and discounts its paper with it, the members of the Punchayet will be thrown into contact from time to time with the managing director of the town bank. Members of the village bank visiting the town, and in the course of the year most leading villagers find their way to the district head quarters, should be encouraged to go and see the managing director of the town bank and take council with him on the subject of the affairs of the village bank. Villagers generally come into head-quarters in parties of five or ten at a time, so that informal conferences could frequently be held between large bodies of the members of the village bank and the authorities of the town bank. It will probably be found that once the village bank is started, everything will work very smoothly.

The chief difficulty in starting a village bank will be in starting the first one of its kind. In the famine of 1896-97, a number of tanks were dug in the Allahabad district by the co-sharers of the villages in the trans-Jumna tracts. The money amounting to several hundred rupees was in each case advanced to the co-sharers who undertook the work of digging the tank and superintending the labourers. In laying out a tank in such a manner as to provide for the requirements of famine labourers, a certain amount of technical skill is requisite. . There was considerable trouble in laying out the areas of the first two or three tanks dug, and in explaining the system of accounts that had to be kept up in order to enable the Government returns to be prepared in the prescribed forms. But once the first two or three tanks had been started, there was no further trouble. When the co-sharers of a neighbouring village had determined on taking an advance for digging a tank in their village, the most intelligent of their number, on hearing what they had to do, would walk

over to the village where operations were already in progress, talk over the matter with the co-sharers of that village, examine the tank works, and then return to their own village and make a practical use of the knowledge so gained. The result was that after about ten tanks had been dug, when it came to laying out a new one, the technical part of the work was gone through in a manner that left nothing to be desired. Yet the only technical assistance the villagers received was that given by an overseer who travelled about from tank to tank and had very little time to devote to any special one.

The accounts of each tank were kept by a clerk of the works. If there was a competent man in the village, he was nominated to the post; if there was none forthcoming, a clerk was deputed by the civil officer in charge of the sub-division. All the co-sharers took a lively interest in the accounts. As the money had been advanced to them by Government, they were personally interested in seeing that there was no cheating on the part of the clerk or the labourers on the works. The labourers certainly had to work hard in the village tank, for the co-sharers knew their men and, like all small farmers, were very jealous about getting a fair day's work for their wage. Whenever the clerk went to the tahsil to show his accounts and to get a further advance to pay the labourers, some four or five co-sharers accompanied him to see fair play and to escort the money safely back to the village. The great aptitude co-sharers possess for managing the affairs of their own village and the business qualities they generally show in safeguarding the interests of the individual member of the community can hardly be conceived, except by those who have been brought into contact with them. No advance was taken by any body of co-sharers in the Allahabad district without considerable discussion among them, as to whether the

amount was one which was justified by the circumstances and by their means to repay. Men of this stamp may safely be trusted to look after the interests of a village bank, once they feel it is their own and that it is identified with their village. All they require is clear explanations at the start, and a certain amount of technical advice while the institution is still in its early days, and with this assistance the village bank should take its place as one of the recognized village institutions.

The following extract from the pen of Father de Besse, a French economist of repute, will help to show how the first village bank was worked in Italy, and with this picture of the actual working of a village bank, the present chapter may fitly come to a close :—" I have just been present at the office of the Loreggia Cassa which is only open once a fortnight for business. Signor Wollemberg presided, assisted by the chaplain and several members of the committee of supervision and directors. The office is held in the village hall ; the work to be done was the receipt of payments and the grants of loans ; the business to be done had been examined by the directorate some days before, and the loan applications had either been accepted or modified, *e.g.*, an application for £8 for a term of one and-a-half years to buy a cow had been endorsed as follows : 'Accepted for £7-4.' The member is informed of the decision, and on the office day appears and signs a bill not for eighteen months, but for three months, since loans of whatever term are granted only on three-months' bills, with the view of retaining control over the borrowers, of requiring them to pay the interest every three months, and of stimulating them to pay off the loan as early as possible. If the loan is not utilized as intended, renewal of the bill is simply refused. One of the chief features of the business is the alacrity with which the peasants pay their debts ; it is visible in their very faces,

especially if a man has succeeded in repaying in advance. A borrower may repay at any moment. On this particular morning ten members were due to come, and duly came, with reference to prior loans; of these four paid up their debts in full; two paid the interest and renewed their bills; one paid an instalment. Another who had paid in advance, treated in that case as a deposit till the maturity of the bill, came to cancel his bill and receive the interest as his deposit; two others simply renewed their bills; two other members, from whom nothing was yet due, came unexpectedly to pay up joyfully in advance the whole of their debt.

"The grant of loans was next taken up; the President announced that the National Bank had renewed and increased its credit of £200. Six members came for loans of from £6 to £8; they signed their bills and received their money. It is noteworthy that as many peasants cannot write they are now getting themselves taught for the purpose of the society. Deposits were next received; these are accepted from non-members; this morning only four children made deposits of small sums.

"Every transaction is vouched for by a written memorandum in counterfoil, the book being in the custody of the President; the coupon is handed to the cashier, who carries out the transaction and files the paper as his voucher; *e.g.*, for a miscellaneous expenditure of three francs, the President wrote a memorandum authorizing the cashier to pay himself that sum. At the end of the morning, there remained in hand £5-10, which the President remitted with a coupon from the memorandum book to a neighbouring bank. This finished the business, everything having been done perfectly and quietly in an hour and a quarter."

Another observer writes as regards the influence of the society in the village life: "Labour is now more honest

and the wine shop less frequented; only steady men are admitted as members; and the result has been that drunkards have taken the pledge and *kept it*. Unlettered men of 50 years of age and upwards have learnt to write so as to be able to sign, etc., the necessary papers. Men rejected as members as being in receipt of public relief have got their names struck off the pauper list and taken to successful work with the aid of a small loan from the Cassa. Many a man who could not even maintain himself has now bought a cow, paying off the loan by selling the milk and cheese, so that her value is clear profit. Empty stalls are now tenanted; there are more beasts, more manure, better harvests. I have heard the members rejoicing at their escape from the cruel usury which was devouring them and blessing the society and its founder."

CHAPTER IV.

On Granaries and Grain Banks.

In all countries where trade is undeveloped and agriculture the main industry, the feeling of thrift finds most frequent expression in the accumulation of grain. The preference for saving in grain rather than in money is based on the soundest principles, for unless commerce has free play, the possessor of hoards of gold or silver is not so well off in times of scarcity as the possessor of hoards of grain. In India till within recent times people very generally saved in grain, but there is a consensus of opinion that with increased facilities for disposing of surplus stocks at a profitable price the practice is now fast on the decline. So long as the country is exposed to periodical visitations of famine it is open to doubt whether it has gained by the abandonment of the old system. When people had no means of disposing of their surplus stock, they were forced to lay it by; thrift was indirectly forced upon them. Now that grain is a marketable commodity at any time and at any place, the temptation to turn it into money is irresistible. No system of saving in money has yet taken root among the masses of the people. Coins are sometimes hoarded in the same way as ornaments on account of the precious metal they contain, but there is no pressure on the people to save money without withdrawing it from circulation, while every inducement is offered them to spend. To those who believe that thrift in any form is better than none at all, this state of things is obviously undesirable. It is dangerous for people to have facilities of credit

without adequate safeguards against its abuse. It is equally dangerous for people to have facilities for disposing of the fruits of their industry, unless they comprehend the necessity of keeping back a part of them, either in their original shape, or in their realized form as a provision for future contingencies.

Grain plays a more important part in the every-day life of the people of the North-West Provinces than anything else. The majority live on grain, supply their needs with grain, defray their expenses in grain and find in the variations of its price an even more absorbing daily topic of conversation than that which people in England find in the changes of the weather. The margin between the average Indian's income and expenditure is a very small one, so small indeed that a rise in the price of grain of one-fourth above its normal value means destitution and ruin to many a hard-working household, while a doubling of the price spells famine. So long as people in this country live in a hand-to-mouth fashion depending on agriculture as their only means of support, famine must always be reckoned with as a possible factor in the situation in case of one or two successive failures of the harvest.

No popular banker can ignore famine as a factor in his calculations. Our system of co-operative banking seeks to work with capital raised in the country. Its interests are bound up with the interests of the locality where it works. The establishment of banks in the villages practically challenges famine, for the village is the unit in which the fight for mastery over a famine must take place. If the village bank is to carry its members through the struggle triumphantly, the strain on its resources will be terrific. Only banks which are well organized and whose members exhibit heroic self-denial can expect to come through the ordeal unscathed. But if at such a time the village bank is able to demonstrate its ability to protect its

members, an object-lesson will be given of the utility of village banking which will insure the adoption of its principles throughout the country. The scarcity in Germany in 1894 threw into relief the working of the Raiffeisen village banks and brought about an unparalleled increase in the numbers of such banks. Here in India the intensity of distress surpasses anything known in Europe. The Indian village bank has not only to face the problem of getting through a period when its members are likely to be reduced to temporary destitution, but it also has to take into account that at such a time many of its members may be actually starving. The resources of the bank should be equal to pulling its members through, but at the best it will come out of the struggle with its reserves depleted and its credit seriously impaired. No popular banker can rest content with such an outlook. The strain on the bank's resources must be eased in some way or other. The cause of the strain is self-evident. Every member when threatened with starvation will seek to realize his assets in order to enable him and his family to purchase food. In a famine the rate for food-grains is approximately double the normal rates. One-half of the assets realized by the members at such a time consequently goes in paying the difference between grain at its normal value and grain at its famine value. The strain then on the bank's resources can be perceptibly eased if it is able to devise some plan which will put it in the power of the members of the bank to obtain grain at normal rates during times of scarcity. A plan of this kind must hinge on a well-devised system of grain storage, worked in conjunction with the bank's every-day operations. The instinctive preference villagers have for saving in grain could be utilized to fill up the granary. Such a reserve might be called the bank's famine insurance fund.

The storage of grain in granaries as a protective measure against famine dates from very ancient times. A brief review of some of the methods followed in the past will serve to illustrate the efficacy of the system, besides bringing out its weak and its strong points. Of all the famines that have ever taken place there is perhaps none which has so taken hold of the popular imagination as the famine which afflicted Egypt in biblical times, and was successfully combated by Joseph its Jewish administrator. The radical difference between Joseph's measures and those of the Indian Government was that he took the grain supply into his own hands instead of leaving it in the hands of private traders. He must have felt his position to be a very strong one for, instead of prohibiting the export of grain from Egypt, we find him selling freely to outsiders. His first step on the approach of famine was to open all his store-houses and sell to the Egyptians, but afterwards he must have engaged in a brisk export trade, as people came from all countries to Egypt to buy corn. But it requires money to buy grain, and, although the grain was for sale in the granaries just as it was in the shops in distressed districts of the North-West Provinces, the famine-stricken people soon found themselves without means to purchase it. When this became apparent, Joseph's next step was to make grain loans to cultivators on the security of their cattle, and after that seed advances on the security of their lands and persons. When he had got everything into his hands he utilized the occasion to resettle the country, his assessment leaving four-fifths of the produce in the hands of the cultivators, and taking one-fifth as the king's share, while leaving endowed temple lands revenue-free (muafi). The Egyptian cultivators seem to have cared very little about parting with their proprietary rights, so long as they retained their cultivating rights, a matter which has

been the subject of remark in past famines in India. The chief point for reflection in Joseph's treatment of the famine is that he never gave anything to the people without exacting an adequate return. When he opened his granaries he required payment, and when people had no money he made loans on the most approved security. Special stress too must be laid on the fact that his granaries, could not have been filled, unless he had inaugurated a system of compulsory saving during the preceding years of plenty. He does not appear to have invented granaries, for modern research in Egyptian antiquities shows that grain store-houses were generally used in Egypt in those days. The practice has always found peculiar favour in North Africa. The Moors in after times took it up and improved upon it by making the village granary a sort of communal fund for lending grain, and one or two banks of this type still survive in Algeria. It is interesting to note that directly the Soudan relapsed under native rulers, the first act of the Khalifa was to establish a Beitul-mal in which all the grain taxes of the country were collected, the system probably being a faint echo of the system that prevailed in the country in olden days from time immemorial.

During the middle ages, when the economic conditions of England were so much more akin to those of India than they are now, people's attention was strongly directed towards granaries as an effectual means of keeping grain at reasonable rates in times of scarcity. There were no State granaries, but there were a considerable number of successful municipal granaries. In Germany the system was adopted by all the great towns, and in 1438 a like expedient, according to Mr. Ashley, was probably prompted in London by the distress of the famine year. 'The mayor of the time, Sir Stephen Brown, charitably relieved the wants of the poor citizens

by sending ships at his own expense to Dantzig which returned laden with rye, and which seasonable supply soon sank grain to reasonable rates......It became a regular practice for the city to provide corn in times of dearth and retail it at a reasonable rate; but until 1520 the necessary funds were obtained by voluntary contributions or loans from the Mayor and Aldermen and other wealthy citizens who were repaid when the corn had been sold ......In 1521 the plan was adopted of imposing an assessment for this purpose upon the "fellowships of sundry misteries and crafts." The usual practice from that time onward was as follows:—An act of Common Council was first passed determining the sum to be levied. This was divided among the companies at the discretion of the Mayor and Aldermen, and precepts for the amount were issued to their wardens. The wardens then assessed the individual members of their company, the money was collected by officers called "corn renters," and it was finally paid in to the bridge masters of London Bridge or to the Chamberlain of the city, and bonds were entered into by these officials for the repayment of the loan.

Until nearly the middle of the sixteenth century, purchases would seem to have been made only in years of exceptional dearness, although it was apparently a generally accepted opinion that there ought to be a permanent store in the city garners. A pamphleteer of 1535 complains that "London hath not made provision to victual itself," and prophesies that "never shall be victuals in London plenty for poor people to drape fine woollen cloths, nor to make all works of artificiality good cheap, before London victual itself like as it was victualled in old time." From 1543 onward, however, it was found advisable to make large purchases almost every year; and in 1565 annual purchases were ordered. "The Lord Mayor and Aldermen shall yearly provide and buy for the

city's provision use and store a great and substantial mass and quantity of wheat at such time of the year as the same wheat may be had for X or XII *s.* a quarter, and that they shall make yearly the like provision of rye and barley at such time of the year as the same shall be most plentiful and best cheap." The authorities usually aimed at keeping in stock some five thousand quarters. As a rule the corn was sold at cost price to bakers and brewers and the general public. In periods of great dearth bakers were restricted to a fixed quantity; and in periods of plenty, when the city had too large a supply on its hands, they were forbidden for a time to purchase elsewhere. The city markets and granaries were inspected by the Mayor and Aldermen from time to time; and under their supervision or later that of the companies, specified quantities of corn were "put to sale" in the markets every week. Until the settlement at the Steelyard was broken up in 1558, a contract was annually made with the merchants of the Hanse for the necessary supply, *e.g.*, in 1544 for as many as eight thousand quarters, although purchases were also made in Norfolk, Suffolk, Sussex and other parts of the kingdom and loans from "the king's wheat" were occasionally granted by the Privy Council .... In the seventeenth century the whole system of city granaries fell into disorder and was abused for selfish purposes. Trade had so greatly developed that no considerable danger was likely to result from leaving the supply of corn to individual enterprise and competition. But there seems no reason to doubt that, in the fifteenth and sixteenth centuries, the city policy was one of great practical wisdom. Probably in no other way could the very considerable amount of capital be provided, which was required for making purchases large enough to meet the ordinary demand in a year of scarcity. After it had become usual to make annual provision, the method of

purchasing in cheap months and selling in dear was of course only that followed by every corn-merchant, save that it was applied on a much larger scale. The same reasons which would lead modern communities to supply themselves with water, *i.e.*, to prevent individuals from securing the profits of a natural monopoly, would justify mediæval communities in supplying themselves with corn. Trade was so little developed that there was always the danger, lest one or two shrewd merchants should secure a practical monoply. It must be noticed that, even in dear years, it was possible for a town to buy corn in the Baltic, pay for its transportation, sell it at a price sufficiently below that of the ordinary dealer to give general satisfaction, and yet make a profit. When we remember that the aldermen and councillors who ordered the purchases were themselves the men who as individuals or as members of their companies had to advance a large part of the necessary funds, it can hardly be supposed that the practice would have been carried on for nearly two centuries, had it not satisfied a real need.'*

When public authorities took to storing grain, it would naturally occur to them that in good years they might as well let the grain out on loan as allow it to remain idle. The most remarkable development of the granary into grain banks took place in Spain and Portugal. The greater part of Spain was, for a long time, under the domination of the Moors, and it was doubtless owing to their influence that the use of granaries became as widespread in this part of Europe as in North Africa. The grain banks were known as *Positos* in Spain ; they were in form and spirit co-operative, and at one time reached a very high state of development. The following description of them, taken from Mr. Nicholson's report on

* Ashley's Economic History.

Agricultural Banks, will give a fair idea of their methods of working and the extent of their operations :—

"These institutions called 'Celleiros publicos' in Portugal were originally started in the fifteenth century simply as granaries in which to store grain for the supply of the people in the then frequent famines or local scarcities, due not merely to seasonal failures, but to other disasters and to the want of communications. Many were established by Government, but most by private beneficence ; these granaries not merely stored the surplus grain of good years, and relieved distress in bad ones, but enabled the local authorities to prevent an undue fall or rise in prices ; by the middle of the sixteenth century there were 12,000 of these local granaries. Obviously it was necessary to change the grain at frequent intervals to prevent spoiling, and this led, if indeed it was not part of the original idea, to the plan of lending out grain at seed time to be returned with an addition at harvest ; sometimes the grain was sold and loans given in cash, and this gradually became customary. By 1792 the number had fallen to 9,604 with a declared capital in grain and money of £4,800,000. Then followed wars and disturbances, accompanied, amongst other difficulties, by a forced contribution of one-fifth of their capital to Government and forced condonation of vast sums owed to the Positos by their debtors. In 1836 and 1839 there were still further levies and demands on national grounds for even the whole property of the Positos, demands which must have ruined any but well established and necessary institutions. In fact by 1886 only 3,400 survived with a capital of about 1½ millions sterling, but even then they were lending to 150,000 cultivators not less than 600,000 fanegas of grain and £50,000 in cash; if they used all their capital the average loan would be about £10. By this time they had long been communal institutions, managed by local committees locally elected, and lending grain for seed and maintenance, with interest in kind at about 4½ per cent. for the crop period or small cash loans at about ½ per cent per month. It was considered that they might form the basis of a sound system of agricultural credit, in the establishment of which Government had long but vainly occupied itself. In 1840 Government attempted to turn the Positos into agricultural banks, but without success, and for many years there have been reformers with similar ideas based chiefly on the undoubted abuses that found their way into the management. Hitherto the proposals have been without effect ; it appears that the institutions fill an important and almost essentially customary rôle in assisting the poorer cultivators, and are agreeable to the needs, ideas, status and methods of the small folk. That there have been abuses, cannot be doubted ; the Spanish local administration is not strong; the country has been subject to all kinds

of disorders, and so little were Positos under supervision, that in 1849 the Minister, in sending circular questions to the Prefects (Collectors), embodied therein a question as to whether any Positos existed in the several districts, a question which elicited the figures mentioned above for 1866. And, as soon as the Positos were placed under regulation by the law of 1877, they took an immediate development, insomuch that, within ten years, their capital had increased by about a million sterling to £2,640,000, of which £880,000 was in cash, £80,000 in immovables (buildings) and the remainder in grain. They are now doing good work in grain loans for seed and maintenance repayable either in grain or cash with 4½ per cent. interest for the period lent, and cash loans at 0·5 per cent per month. By a regulation in 1792 at least one-third of the grain in store was to be lent for seed, the remainder being available for loans for maintenance; it is not known whether any such proportion is still observed."

Somewhat similar institutions, known as Montes Frumentarii, were started in South Italy and Sicily in the middle ages at a time when that part of the world was under the influence of the Spanish crown. In 1878 as many as 1,965 were said to be still in existence, with an average capital of £300 each, but there were great complaints as to their mismanagement.

In ancient and mediæval times the establishment of granaries was abundantly justified by the lack of means of communication between one country and another, as well as by the difficulties that confronted ordinary commerce. Now that communications between different countries have been made so easy, the days of granaries might seem to have passed away. By the irony of fate the development of facilities of trade has brought about a cry for the re-establishment of granaries in order to check the abuses of speculation. The interdependence of one country upon another has become more marked in the matter of the grain supply than in any other branch of trade. Commerce has became so highly organised that it is becoming daily more practicable for any man in command of the requisite capital, sitting at some great centre, to control the movements of any specified stocks throughout the world. There are two causes playing into the hands of speculators in grain :—1st, The very small

cost of transport of grain from one part of the world to the other; 2nd, the creation of trusts which crush out the competition of the small trader.

As regards the decline in the cost of transport, Professor Niccoli estimates that in 1860 the carriage of a hectolitre of wheat from Chicago to New York cost 4·50 lire, and from New York to Liverpool 2·30 lire; in 1880 the same cost 3 lire from Chicago to New York, and 1·40 lire from New York to Liverpool; while in 1890 the total cost had fallen to about 3·50 lire. With the opening of the Erie Canal the cost of transport of a hectolitre of grain from Chicago to New York has fallen to 60 centimes, while the cost of the carriage from New York to Liverpool shows a decline to a little under a lira. There has been a corresponding falling off in the rates of carriage in India. In the report of the Indian Famine Commission of 1898 it is stated that in 1880 the charge for transport between the most distant parts of India, connected by rail, was about one anna per seer, and grain could be bought costing 24 seers per rupee in Northern India and sold with fair profit in Southern India at 8 seers the rupee. At the present time grain would be carried 1,000 miles for a little over ten annas per maund of 40 seers, and wheat selling in the Punjab at 12 seers the rupee could, if on the line of rail, be placed 1,000 miles off and sold at 10 seers the rupee.

As regards the creation of trusts, those that have been formed of late years in America facilitate operations on a scale that the wildest speculator never dreamt of before. Grain is the most difficult of all commodities to get under control. Yet in Chicago a knot of operators lately managed to control the American market for a short time and, though they signally failed in their object, yet the price of corn rose suddenly in Europe

for a few weeks, and the bread riots in Northern Italy may be indirectly traced to their action.

Prices could not be subject to such sudden fluctuations in different parts of the world, if it were not for the growing practice of inland grain dealers to keep in hand as little reserve stocks as possible. The object of a dealer nowadays is to keep turning over his capital as rapidly as possible, and he naturally dislikes keeping a considerable part of it sterile for any length of time in the shape of reserve stocks. It is plain that the action of speculators on a large scale can be easily frustrated, if individual members of the community give up the habit of buying only sufficient stocks to last them a few days. The matter would possess only an academic interest to the majority of people, and there would be no call for granaries, if it were not for the fact that speculators are bound to find their great chance when a war breaks out in Europe between two first-class powers. It has long been recognized that in a great European war, one of the chief determining factors in the situation will be the superiority of wealth and material resources that one of the combatant happens to possess over the other. It is no longer possible for an army to march into a country after a great victory and overrun it in a few weeks. In most continental countries this contingency has been provided against by the construction of successive lines of defences against invasion. If one line is forced, the next will have to be carried in its turn. These lines, if fully manned, will require hundreds of thousands of men to garrison them. The invader on his side has two alternatives before him: he must either force each line in turn, an operation that is calculated to last about nine months; or else he must mask all the defences he leaves behind when he has cut a passage through, and beleaguer them with hosts of corresponding strength. The

economic drain on a nation in the event of such a war will be unparalleled. The first result will be the driving up of all grain in the market to famine prices, as the demand for it to feed the vast masses of armed men withdrawn from productive labour will have to be satisfied regardless of cost. The matter has attracted considerable notice, since the smallness of the stocks in reserve in Europe was demonstrated at the time of the Chicago speculators' operations. The result has been the revival of the old movement in favour of granaries. The leading Governments have, for some years past, taken to stocking immense reserves of coal for consumption in time of war, and from this to stocking grain is but one step.

India is in the fortunate position of producing more than she needs for ordinary consumption, so that temporary fluctuations of prices in foreign countries affect her only in a very slight degree. The great mass of the people gaining their living by agriculture reserve for themselves and their servants out of their home-grown crops enough grain to live upon, and consequently never buy in the open market at all. It is only in times of famine that the dealers in the large towns are confronted with the problem, not only of finding supplies for the urban populations, but also of meeting the new demands of the great mass of the agricultural population. Left to themselves the dealers manage matters very well, and, if conditions are normal, they ought to be able to command the help of export merchants; but if a war broke out in Europe at the same time as a famine occurred in India, the excessive high prices that would rule in Europe in consequence would preclude the inland dealers from getting help from outside, and they would be thrown on their own resources. The excessive strain on the dealers at a time of famine is entirely owing to the fact that, at the moment when the failure of the harvests has

prevented them from replenishing their stocks, the greater portion of the agricultural community suddenly change from the position of sellers into that of customers. The smallness of the stocks the dealers keep ordinarily in hand prevents them from meeting the new demand in any other way but by raising prices. Any system that would provide grain for the consumption of cultivators in the village at a time of scarcity and prevent them from competing for the grain on sale, so far from interfering with the course of trade, ought to strengthen the hands of the dealers in making arrangements to meet the current demand.

There is no question as to the ability of the cultivator to save grain if he chooses. In ordinary years there is a large surplus in the food production of India over the requirements of the population. This surplus is variously estimated at from five to nine and-a-half millions of tons. Every province except Assam, shows a normal surplus. It should be the first duty of the village bank to teach its members to reserve some small portion of this surplus annually as an insurance against famine. The bank cannot allow any consideration to influence its proceedings, except what may bear on the question of its own solvency ; but, if it finds it can protect its own interests by storing grain, it protects those of its members, for the interests of the two are identical. We think it proved that granaries have a certain use in famines, that their utility has been proved in the past when the lack of communications prevented a country frem replenishing its food-stocks and that, in the future, they are likely to prove of equal benefit when, owing to the smallness of stocks in reserve in any part of the world, there is no means of importing fresh supplies in a time of emergency, except at prohibitive prices. The question is, supposing a village bank decides on keeping a granary in reserve, how is it to set about collecting

grain? How is it to manage the grain when stored? How is it to meet the demands of members on its store? And how will such a proceeding affect the solvency of the bank?

The solvency of the bank is bound up with the solvency of its members. So long as the members of a village bank are in a position to pay up their loans eventually, the solvency of the bank is assured. A village bank is in no hurry for repayment; all it requires is a certainty that the repayment will be made. The solvency of a cultivator turns chiefly on his ability to command a supply of seed at the time of sowing. This is true especially during a famine. At such a period it is no one's interest to displace him; no rival is likely to oust him from his barren fields; his landlord, if he has one, is desirous of seeing him remain on the land in the hope of realizing arrears from him at the next harvest; the Government, if he is a co-sharer, does not press him for revenue for the same reason as the landlord's. But, unless a cultivator, at such a time, can command seed for his sowing and food for his cattle, he runs the risk of sinking to the position of a day labourer or of a sub-tenant to some more fortunate man than himself. The bank's efforts must primarily be devoted to securing for its members the same position at the close of a famine as they occupied at the beginning. It has further to face the problem of effecting this without depleting its ordinary capital and reserves. The creation of a special reserve for making advances of seed during famine is the first step the bank must take, if it wishes to protect its own interests and keep its members in a position to make repayments on loans due to the bank. We lay special stress on the seed advances, because a man may pinch and starve himself and the members of his family, he may put his cattle on short commons, but he cannot starve the land.

The amount of grain a village bank should keep in reserve for the purpose of making seed advances during one year can be estimated with approximate accuracy. In a bank that is in working order, there should be no difficulty in finding out with absolute exactness, after examination of the area of land held by members, the amount of seed that would be required for sowing this area. It will be convenient, however, to find a standard amount for a bank of 100 members, all of whom are not necessarily agriculturists. Taking the estimate of the Famine Commissioners as a guide, it appears that, roughly, the North-West Provinces, with a population of 48 millions, consumes annually 12 million tons of produce. This consumption covers everything, food for cattle, food for human consumption, wastage and amount required for seed. Taking the same proportion as the basis of our calculations, we find that 25 tons cover all the annual requirements of 100 persons. The amount used as seed is one-twelfth of the whole total. Consequently, $2\frac{1}{12}$th tons is the amount of seed required for any 100 persons. This figure can be tested in various ways. The average amount of grain consumed by an individual in the North-West Provinces varies from about $\frac{1}{2}$ seer to 1 seer of grain daily. A man doing no hard work takes about $\frac{1}{2}$ seer; if doing manual labour, he takes about one seer; and similarly for a woman, while a growing child takes almost as much as a full grown man. From 9 to 10 chattacks is a fair average daily consumption per head or a trifle over $5\frac{1}{2}$ maunds a year at 10 chattacks per day. This is equal to about 20 tons per 100 of population, taking the ton as equivalent to $27\frac{1}{4}$ maunds. The 12 millions tons of produce is consumed in the following proportions:—Three-fourths food, $\frac{1}{12}$th seed and $\frac{1}{6}$th food of cattle and wastage. Upon this basis, if 20 tons represent the $\frac{3}{4}$ths, a little over 2 tons would represent the $\frac{1}{12}$th proportion for seed.

Again, the Government of India has adopted for its standard 7 maunds a year as representing the normal net consumption of grain per head of population in municipal towns. This comes to 25 tons a year for 100 persons. In a town a good deal of grain is used in feeding cattle and horses within the boundaries, and there are more rich people living there than in the country, so that, though seed is not included in this total, its exclusion is fully compensated for by the higher standard of comfort in the towns, which allows people to feed themselves better than poor cultivators in the country; 25 tons may fairly be taken as the total average annual consumption by any 100 persons in any circumstances.

$2\frac{1}{12}$th tons = 56 maunds 32 seers odd, so that a little over 22 seers is the amount required for each person's annual sowings. As about 5 seers of seed is required for a bigha, and the average holding on which a man can support himself comfortably is 4 bighas, nearly three acres, 22 seers is a fair allowance. In round numbers 56 maunds may be accepted as the standard for seed advances to 100 members for one year. If famines are taken to occur once every twenty years, it is possible to estimate pretty closely the amount a bank should credit to the fund every year in order to get fifty-six maunds in by the arrival of the twentieth year after the last famine. The value of a maund of grain at 16 seers to the rupee is only Rs. 2-8, so that it is not asking too much of a village bank to build up a fund of the value of Rs. 140 for every hundred members, especially when it is remembered that at a time of famine, when grain is 8 seers to the rupee, this same fund would have a value of Rs. 280. Spread over twenty years, this insurance fund would work out to an annual contribution of a little over one anna a head per 100 members.

The importance of possessing a special insurance fund of this nature in grain, for the purpose of making advances to members in a time of scarcity, is so paramount that its creation calls for a special effort on the part of the village bank from the very outset. A special charge of $\frac{1}{8}$th per cent. or two annas per 100 rupees might be made on every transaction, and the proceeds carried to the special insurance fund. The charge is too low to be felt, and by means of it the fund would obtain a permanent source of income. The bank might also vote regularly out of its profits each year a certain sum to be devoted to the help of the fund.

The storage of the grain in the village possesses no difficulties in a country like Northern India. Every well-to-do cultivator has grain-pits, and even if there are none in the village there is no trouble in constructing them. The grain should be changed every year. The profit obtained by the exchange can be devoted to defraying any expenses that may have been incurred by the storage. Grain that has been a twelve month in store is usually sold one anna in the rupee dearer than new grain, as the people of the country dislike using new grain under the impression that, unless it is well mixed with old grain, it affects the health and brings about indigestion. If the bank has its own grain-pits, or if some of the members are ready to provide the pits gratuitously, the bank can even make a small profit out of the storage, all of which should go to swell the fund.

No advances should be made from this fund, till the district in which the bank is situated has been officially declared by Government to be in a distressed condition. Upon issue of the Government notification, the bank should prepare to make advances out of the fund to those members who are most in need of them. The advances should be modelled on the 'Sawai' system,

which is largely practised by grain dealers in the eastern parts of the Provinces, that is to say, the loan should be made on condition of receiving back the original amount of grain, plus a certain amount as interest when the harvests have been gathered in. Under the 'Sawai' system, dealers usually require a bonus of $\frac{1}{4}$th of the original amount of their advance on repayment, but a village bank might content itself with $\frac{1}{16}$th. The loan should never be gratuitous, for if it has really benefited the borrower, he ought to be in a condition to pay a trifle for the use of it. It is important to preserve the self-respect of the members at such a time, and to keep them from being pauperized by charitable donations under any guise whatsoever. If there is not enough grain in the famine fund to meet all the applications for loans that have been passed by the bank's administration, then the applicants should ballot for precedence in obtaining the loans, and all those left out should be directed to apply for money loans from the bank in the usual way, a special effort being made by the bank to meet their requirements in as liberal a fashion as circumstances permit.

A village bank proposing to start a famine insurance fund might adopt the following rules :—

1. The famine insurance fund is solely for the purpose of making seed advances to members during a period of scarcity.
2. Scarcity shall be deemed to exist when the district in which the village bank is situated has been officially recognized by Government to be distressed.
3. The income of the fund is derived from two sources—(*a*) from a charge not exceeding $\frac{1}{8}$th per cent. on all transactions in which the bank may engage, levied on the persons with whom the business is transacted · (*b*) from such

grants out of profits that the bank administration may from time to time think fit to make.

4. Advances of seed from the fund are repayable in kind at the next harvest plus $\frac{1}{16}$th of the original advance as interest.

5. In the event of the amount applied for in advances exceeding the amount of the fund, applicants shall ballot for priority, and members whose applications fail to obtain a place shall be referred to the bank for money loans on favourable terms.

6. The famine insurance fund shall consist solely of grain, the grain being stored in a pit provided by the bank and changed once a year for new grain.

7. The value of the grain in store shall ordinarily be shown in the bank books at a rate equivalent to the average rate of grain for the preceding ten years.

8. The management of the fund shall be vested in the Bank Punchayet and shall be subject to the control of the Committee of supervisors.

The town bank has no need of providing seed for its members who ought to belong chiefly to the commercial and clerical classes, but it might very well arrange to keep a small store of grain in hand to enable it in time of scarcity to make advances to poorer members which would help them to eke out their scanty resources. There is a kind of relief during famine which is very popular in large Indian cities, known as the charitable 'grain shop,' at which persons possessing tickets issued by a charitable society can buy grain at a slightly lower rate than that prevailing in the open market. The cost of the difference

is defrayed by the subscriptions of the charitable persons who belong to the society. Every person whose application for relief has been granted is provided with a ticket, which enables him to obtain grain say at ten seers at a selected bunia's shop when the rate is eight seers the rupee. The scheme is one which does more credit to the heart than to the head of the promoters, for it invariably happens that when the subscriptions are exhausted the 'grain shop' has to close its operations. The chief defect lies in the fact that the persons who obtain the tickets have not contributed anything to their cost, and are consequently more likely to be demoralized than benefited by the charity in the long run. Now a town bank cannot undertake to provide food for its members on any large scale, but it might very well encourage them to build up a fund which would be of help to them in obtaining food during hard times. The strain on the resources of many clerks and others in receipt of salaries is exceedingly great when there is a considerable rise in prices, for a man in receipt of, say, twenty rupees a month, has frequently by the custom of the country to support ten or twelve relations out of it. As prices rise, his ability to make both ends meet decreases, his margin being so small to start with, his only method of making his salary cover expenses is by docking the food allowance of each member of the family. Men of this stamp are too proud to beg, or to receive charity in any form, and would rather starve themselves than let people have an idea that they were suffering from want. Such persons deserve help, and we think a town bank, by the establishment of a Famine Provident Fund, might arrange to afford them relief without hurting any of their susceptibilities. Each member of the bank, wishing to participate in the benefits of the fund in time of famine, should be asked to subscribe a trifling sum in

grain annually. The bank should undertake to encourage this form of thrift by voting one per cent. out of its profits annually as a subsidy to the fund. The grain should be stored on the bank's premises, and renewed every year. No advances should be made from the fund until the price of grain reaches the rate adopted by Government in its standing orders as that at which all Government servants drawing less than ten rupees a month become entitled to famine compensation allowance. Members applying for loans from the fund, whose applications are granted, should be given tickets entitling them (by previous arrangement with a selected grain dealer) to obtain grain at one seer or so more than the market rate, so long as the total amount so obtained does not exceed the amount entered on the ticket, the difference being made good out of the fund. The grain held by the bank could thus be brought into the market without causing any disturbance to local trade, and by working in conjunction with grain dealers, the latter would be able to make their arrangements for bringing in grain without fear of the bank suddenly throwing its stocks into the market and lowering prices for the time being. The idea of setting aside a fixed sum of one per cent. out of the profits is one that is not likely to be at all repugnant to the feelings of shareholders, for it is a common custom among large commission Hindu firms in the North-West Provinces to stipulate that if they are paid 8 annas per cent. commission on business, another one anna per cent. shall be added for charitable purposes. Many bunias practice charity on a large and ostentatious scale, though their charity is generally connected with religious motives or feelings. If the commercial class, among the bank's members, raises no objection to the diminution of the gross profits by one per cent. no other section is likely to offer any resistance to the project. The following rules may be taken as specimen

rules for a town bank wishing to start a famine provident fund :—

1. The bank's famine provident fund is solely for the purpose of making advances of grain to members in distressed circumstances when grain is at famine rates.

2. Grain shall be deemed to be at famine rates when the market rates for those kinds of grain ordinarily used to support life are equal to or less than the rates laid down by Government as the standard ones upon which Government servants, drawing less than Rs. 10 a month, are entitled to famine compensation allowances.

3. The management of the fund shall be vested in the Board of Directors [Council of Administration], subject to the supervision of the Committee of Control.

4. Any member of the town bank may belong by right to the bank's famine provident fund. Any member wishing to join the fund should signify his willingness to pay an annual subscription and agree to abide by the rules of the fund and sign his name as a token of consent in a book containing the names of members of the fund.

5. A member on joining the fund must pay a donation of four annas.

6. The annual subscription shall be fixed in proportion to the value of the bank's share, and shall be calculated on the basis of one anna for each rupee of the share. Thus, if a bank has Rs. 10 shares, the annual subscription of a member will be 10 annas ; if Rs. 20 shares, the annual subscription will be Re. 1-4.

7. Upon the declaration of the bank's profits, before any division of the same takes place, one per cent. shall be credited to the bank's famine provident fund.

8. All payments shall be made in grain, and all assets to the credit of the fund shall be held in grain.

9. No member shall be entitled to obtain an advance from the fund of an amount of grain exceeding double the amount he has subscribed, except by consent of a majority of the members of the fund.

10. When the amount in hand is not sufficient to meet the amount applied for, the applicants shall ballot for priority, the unsatisfied applications being laid before the Bank's Council of Administration for favourable consideration with a view to the issue of money loans on reduced terms.

11. When an application for a loan has been granted, the applicant shall be furnished with a ticket showing the amount of grain which has been granted on loan, and the duration of time for which the ticket is valid. On production of this ticket at the shop of a grain dealer specified in the ticket, the bearer shall be entitled to an allowance of 1 to 2 seers above the market rate on all purchases of grain made by him, until the extra allowance equals the total amount inscribed on the ticket.

12. No loan shall be issued unless the borrower agrees to pay back within two years the amount of the advance in full; but it is at the discretion of the Council of Administration to make exceptions to this rule. All advances shall be made free of interest.

A famine insurance fund for the purpose of making seed advances to members, and a famine provident fund for the purpose of making subsistence advances to members may be taken as part of the necessary equipment of the village bank and the town bank, respectively, in a country like India. Neither of these funds, if worked on the lines indicated above, affect the bank's ordinary business operations. They stand quite apart from the bank's usual sphere of activity, but the trouble bestowed on them by the bank will be amply repaid when famine strains the resources of the bank in meeting the demands on its credit. Their

primary object is to sustain the solvency of the bank's members and thereby indirectly sustain the bank's solvency. The question remains, whether the bank can take any further precautions to solidify its position in time of famine. A consideration of all the circumstances of the case leads to the conclusion that, if both the town bank and the village bank held a portion of their reserve fund in grain, there would be a material gain to the bank, both in credit and resources, at a time when the two run a chance of being heavily shaken.

The disadvantage of holding part of the reserve fund in grain is that the bank would lose the interest on the amount sunk in grain, which it would otherwise have obtained by investing the money in Government securities. It might also be urged that grain is subject to considerable fluctuations in price.

The answer to these objections is as follows :—

1*st*. The bank would admittedly lose the current interest on the amount kept in grain ; but this would be counterbalanced by the fact that, in times of scarcity, the value of the grain would increase in proportion to the intensity of the scarcity. When grain doubles its normal value, as it frequently does in a severe famine, the bank could convert its grain into cash, earn some twenty to fifty per cent. profit on the transaction, and strengthen its reserve exactly at the time when it might be most difficult to convert the investments in Government securities into cash without incurring loss owing to a depreciation in stock brought about by the bad circumstances of the country. The town bank could not afford to keep any large portion of its reserve sterile, but it would not harm it to keep at least one-sixteenth of its reserve in grain, instead of investing it in Government paper. With the village bank the case is different. It is never likely to have such a large reserve that the income from

interest on investments would form any appreciable item in its income. For the purposes of the village bank, grain is just as convertible a security as Government paper, perhaps more so, and it might very well keep half of its reserve in grain.

2*nd*. Although grain is subject to considerable fluctuations in price, so for the matter of that is Government paper. The fluctuations might, however, be discounted by valuing the grain in the bank's books at the average rates prevailing for the preceding ten years. Thus, if the average rate was 16 seers the rupee, whether the grain when purchased was 20 seers or 15 seers the rupee, its value would be entered at the average rate of 16 seers. It would not be sold till the famine rate of 9 seers the rupee was reached, the difference being so much pure gain to the reserve fund. If the bank authorities wished to treat it as an available asset at ordinary times, they could never be far wrong in calculating it at an average rate, for it would be highly unlikely that the prevailing market rate would fall below the average rate unless a famine was impending or threatening.

Petty considerations, such as a temporary loss of interest, should not be allowed to obscure the main point, which is that, until the people of the country are more accustomed to banking operations, the first and paramount consideration is to gain their confidence. The fact that a local institution happens to possess a strong reserve of grain, is more likely to carry weight with half-educated people, so many of whom are now to be met with in Indian towns and villages than the strongest arguments or the most elaborate explanations of the bank's financial position. In the early part of the century a run on a country bank in England has been more than once stopped by a timely display of all the gold bullion of the bank on its counter. Similarly, if a local bank has a large supply of grain in

its reserve, and this is known to the people of the town or village, the fact is more likely to convince them of the stability of the bank than the most persuasive array of figures. There is little doubt that, at the first approach of famine, any bank that had built up a strong reserve of grain would be overwhelmed with applications for membership, and could pick and choose its members very fastidiously. The prestige accruing to the bank from the possession of reserve granaries should alone more than counterbalance any of the disadvantages that might ensue from the practice.

The bank should be under no necessity of coming into the open market as a purchaser of grain to fill its reserve granaries. If a town bank or a village bank wishes to hold part of its reserve in grain, it should arrange to receive deposits of grain. A town bank might find this troublesome, but there is no need for it to receive any deposits itself, as it could replenish its stores from grain deposited in affiliated village banks. In all village banks arrangements might be made to receive deposits of grain up to a small maximum, say, to the annual value of five rupees. The object of these deposit accounts would be to encourage thrift by the taking of grain deposits, however small the amount tendered at a time, and to provide a means of obtaining grain for the reserve without having to buy from outside dealers. When the total amount in deposit reaches five rupees in value, an ordinary cash savings deposit for that amount should be opened in favour of the depositor who might, as an encouragement, receive the same interest at the time his cash account is opened, as if the deposits had been in cash all the time. If the total amount of grain deposited does not reach Rs. 5 during the year, no interest at all should be allowed. In order to prevent loss to the bank, it might be stipulated that no member should be allowed to draw interest on any

five rupees worth of grain tendered in deposit more than once in the year, otherwise the bank might find itself at a disadvantage through allowing too much interest on deposits which it could not utilize. As regards the loss of interest on a single deposit of the value of Rs. 5, the bank would be compensated by the incitement that had been held out to the depositor to save, and by the educational effect it would have upon him.

The bank should reserve itself the right of paying back all grain deposits, either in grain or at the market rate of the day. It would thus be able, when it chose, to turn over any deposits into its reserve granaries and credit to them their cash value, with a minimum amount of inconvenience to itself and to its members.

It is obvious that, if a number of co-operative banks in the towns and villages steadily pursue the same policy of holding a fixed proportion of their reserves in grain, and, if the banks prosper and the movement gains ground upon a scale commensurate with the success of the movement in continental countries, the amount of grain in store must soon attain considerable magnitude. Our system lays down the necessity of the banks federating from the very outset. If the banks are federated, the first use of the grain in reserve in a strong bank will be to turn it over to the help of a weak bank, which may happen to be in difficulties through no fault of its own. Scarcity is often very local in its effects, and a bank in one district may be reduced to extremity, while a bank in a district a few hundred miles away may be prospering. Federation enables the weaker bank to draw on the resources of its richer brother, for interested, as well as compassionate motives, forbid allied banks to allow a member of their union to fail if they are satisfied that its business is in a sound state and that its weakness prevents it from coping with a situation beyond its resources. But by the

time the federated banks possess such strong grain reserves that they do not quite know what to do with them, it may reasonably be hoped that a Central Bank has been founded. A Central Bank can make use of the grain reserves in a way that no single bank could do, for it might utilize them as a reserve for its note issue. At present no private bank in India issues notes, nor is there any reason to suppose it is likely to be allowed to do so, unless the matter is pressed upon the notice of Government. We have scrupulously avoided any reference to the currency question throughout this work, for the matter is one on which the most diverse opinions are held and always will be held. One thing, however, appears certain, that, if a gold currency is introduced and a token rupee continues to circulate in the country, the question of a more extended issue of paper to finance the needs of internal trade must force itself into prominence. To a certain extent the interests of the inland trader and producer are antagonistic to those of the exporter. So long as money is not the universal medium of exchange in India, and so long as the country goes on absorbing money in displacement of the old methods of barter, the more rupees that are in circulation, the easier it will be to promote internal trade and industry. If the rupee circulation is contracted, traders will be forced to make the most of the different means of credit at their disposal which enable them to a certain extent to dispense with the use of money. The simplest means of dispensing with coin is by the use of the bank-note. The graphic description given by Adam Smith of the way Scotch Banks utilized their note issue has already been quoted in a preceding chapter. Here in India the objection to bank-notes is that people would be suspicious of them at first, and would dislike making use of them generally. Supposing a Central Bank obtained the power to issue notes on the security of all the

federated banks, it might overcome popular prejudices against notes by making them payable on demand in cash or in grain. The grain rate would be fixed once a year or every six months, and would also be below the market rates, so as to ensure that no demand would be made for payment in grain, unless there had meanwhile been a rise of the rate to such an extent as to make it profitable for the bank to make grain payments. Supposing the market rate for grain was 18 seers the rupee, and the rate in the last famine was eight seers the rupee, and the bank's reserves had all been collected at an average rate of 16 seers the rupee, the Central Bank might very safely issue its notes, payable on demand, either in rupees or in grain at the rate of 10 seers the rupee. The notes would be enfaced for payment in grain at a chosen bank, while the cash demand would be payable at the offices of the Central Bank.

The Central Bank would of course have to keep the usual cash reserve to meet the demands for cash payment, but the advantage of making the notes payable in grain as well would make itself felt at the time when there is likely to be a run on the bank to realize the notes. As hard times approached and the price of grain rose, people, instead of cashing their notes, would be likely to cling to them, for remembering the last famine when the price was eight seers to the rupee, they would look on a note giving them the power of getting ten seers the rupee as worth keeping for an emergency. A man who keeps ten rupees in reserve in times of scarcity, meaning to expend it only in the last extremity, would naturally prefer keeping his money in the form of a bank-note, giving him the assurance that his rupees are worth 10 seers of grain to the rupee, however high prices may rise, than in the form of a silver rupee, which at the beginning of the year may be worth 14 seers of grain, but a few months after

may only be worth eight seers of grain. It is possible that local bunias might try and get hold of the notes to aid them in making a grain corner, but that would not affect the bank in any way, as its great aim should be to place grain reserves on the market exactly when they are most needed in the way that is least likely to disturb trade. We know of no plan less likely to disturb trade operations than the one now suggested. The mere fact of bunias holding the notes is a matter of no importance so long as the notes are paid over the counter to members in the ordinary way of business, for the bank would always have the advantage of utilizing paper instead of money for making its payments. A paper issue moreover is easy to control and once it has been ascertained how many notes are likely to be presented for payment every month, the bank directors should have no difficulty in regulating their note issue month by month. Notes issued by a local bank with grain reserves, visible to every inhabitant of the locality, should pass as readily from hand to hand as gold or silver.

It may be asked why a bank with part of its reserve in grain should not utilize the grain by lending it out. Such a practice would, however, cut at the root of the principles upon which we advocate the addition of a granary to the ordinary resources of the bank. Money has irrevocably taken the place of grain in the transactions of daily life and, even though it may not be in general use at present among the people at large, it must supersede all other mediums of exchange in course of time. To conduct banking operations entirely in grain would be a retrograde step. But we have insisted on granaries solely as a means of insuring the bank against the effects of famine. If the grain held by the bank was lent out and the harvests failed, the bank would be as badly off as if it had never had any grain reserves. The object of the

granary is for the bank to have a full stock in hand exactly at the time when every one else's stocks are exhausted. This object would be defeated if the bank, like its members, staked its grain on the outturn of the next harvest. Moreover the less the bank interferes in the daily life of the people, and such interference is inevitable if it begins lending grain regularly in opposition to the local grain dealer, the more likely it is to make headway. By all means let the bank make seed advances at time of famine but it is presumed that the persons to whom these advances are made are not able to pay a grain-dealer for their seed, and that the grain-dealer has no intention of giving such people credit—not on moderate terms, but upon any terms whatsoever.

CHAPTER V.

The Bank at Mentone.

The present chapter is devoted to a brief review of the work of the popular bank at Mentone compiled from materials kindly placed at our disposal by its courteous director, the eminent economist, M. Ch. Rayneri. We have selected this bank for a short description, not because of any special co-operative features it itself possesses, but because of the consistent policy pursued by its director in seeking to spread the principles of popular banking throughout the department of the Alpes Maritimes, not only by affording help to sister banks of the same description, but by encouraging the foundation of village banks in the villages of the department and then affiliating them to the parent bank. Moreover, as these village banks grew in number, they have been grouped together in a union and an additional impetus has been given to the work of propaganda, so much so that, in a few years, if the present pace continues, M. Rayneri will be able to put the finishing touch to his work by the foundation of a central bank.

Mentone, we may say for the information of those who have not the good fortune to be acquainted with the Riviera, is a little town close to the Italian frontier, and situated next to the principality of Monaco, and only a few miles from Cimiez, which for the last few years has been the chosen home of the Queen-Empress of India in the spring time. It lies in a sheltered bay on the sea coast shut in by high mountains and, in its general aspect, if the sea is taken away, the surrounding country

has a faint resemblance to the lower slopes of the Himalayas in the beautiful district of Dehra Dun in the North-West Provinces. The resident population consists of about 10,000 inhabitants, but of late years a great change has come over the country-side owing to the influx of strangers mostly English, in search of health. Like Mussoorie the town depends a great deal on the patronage of visitors at a certain season of the year for its prosperity. We all remember the failure of the Himalaya Bank a few years ago, and Mentone had its counterpart. The most important bank of the district failed, and the people of Mentone found themselves plunged in a crisis which was the more difficult to overcome as, owing to the rapid growth in the prosperity of the place, the inhabitants had all acquired the building fever and had got into the habit of taking credit at usurious rates of interest in the expectation of making cent. per cent. profits by their speculations. The closing of the bank threatened to plunge many of the inhabitants into ruin; confidence had disappeared, but at the psychological moment the advocates of co-operation came forward to declare that they had a remedy, and that this remedy lay in combating the crisis by the union of moral and economic forces, another way of describing co-operation. On 28th January 1883 a meeting was held in the public library, at which the promoters explained their meaning and object to those present, and a committee was appointed to supervise the drawing up of rules. A subscription list was opened during the meeting and the amount, 20,000 francs, requisite for the foundation of the bank was more than subscribed on the spot. On the 18th of February the statutes were discussed and drawn up. The maximum capital was fixed at 100,000 francs. More than 150,000 francs were subscribed, so that a reduction had to be made in the subscriptions. No one was allowed to receive more than fifteen shares, a total of 1,500 francs.

The bank opened its doors in a very humble manner. There were no pretensions at showy buildings; two furnished rooms were rented at 200 francs for six months; expenses were cut down to the minimum, and the whole work of the bank was carried on by the director and a cashier, assisted by a couple of apprentices. Every evening a balance sheet was drawn up, and this procedure has been scrupulously followed since the opening of the bank. The accounts showed the manner in which the bank's resources were handled from day to day and were open to the inspection of any shareholder. The bank was assisted by the Bank of France, and its operations during the first year were conducted so successfully that it was able to raise its capital to 200,000 francs. But its existence was not all a bed of roses. In 1884 a private bank failed, and another severe blow was struck at the resources of the residents of Mentone. In order to meet this emergency the popular bank augmented its capital by the admission of new members to 300,000 francs. The same year was marked by the outbreak of an epidemic of cholera at Toulon and Marseilles close by. Visitors kept away from Mentone through fear of the disease, and this put a heavy tax on the resources of the inhabitants. The next year cholera again re-appeared, and strained the local resources to breaking point. 1886 was a prosperous year; but in 1887 came the earthquake, which shattered a number of houses and inflicted heavy damage on the Riviera. The popular bank again came to the front by the liberality with which it made advances to persons for the repair of their properties. From that date the bank has had an uninterrupted career of success. In 1889 the first congress of French popular banks was convoked at Marseilles, and in 1890 Mentone had the honour of receiving the delegates. Soon after a popular bank was founded at Nice, the second popular bank in the department.

The part played by the Mentone bank in the organisation of rural credit may be best gathered from a report made by M. Rayneri to the International Exhibition of Brussels, of which the following is a free translation :—

The popular bank of Mentone was not slow to perceive that its rôle ought not to be limited to the distribution of urban credit, but that it had an equally important mission to fulfil in the organisation of credit for the benefit of the class most worthy of attention because it is the least favoured in this respect, that of the cultivators. The bank had successfully assimilated the Schulze Luzzatti system, and it came to the conclusion that an equally efficacious use could be made of the Raiffeisen system in rural tracts. It accordingly gave its support in 1893 to the creation of the village bank of Castellar. Events soon justified its anticipations. The development of this particular village bank has known no pause, and its prosperity has never experienced any check. It is rightly cited as one of the most successful institutions of its kind, and at the Social and Economical Exhibition held at Bordeaux it was awarded the highest prize.

Thanks to the initiative of devoted citizens, other village banks have been successfully established at different centres in the department, and in three years the number of village banks has increased to eleven. The popular bank not only gave moral support to these humble associations but assisted them greatly by advances which in 1894 and 1895 amounted to francs 42,330, and in 1895 and 1896 to francs 74,545. The advances have been repaid on due date, and no loss has been suffered. Besides this, M. Ch. Rayneri, the director of our bank, who was one of the founders of the village bank of Trets, the first of its kind in the Bouches du Rhône, last year went on a tour of propaganda through the same department in company with M. Eugène Rostand, President of the Federal Centre of

popular Credit in France, and succeeded in founding three new village banks.

In view of the continued diffusion of the co-operative idea in the Alpes Maritimes, the bank decided in 1895 to unite all the existing institutions into a departmental group, the idea being to give a fresh impulse to the movement in favour of co-operative credit, to study the questions interwoven with it, to stamp a certain unity of purpose and action on the societies which gave in their adherence to the group, and to create between them ties of good brotherhood. The group was solemnly inaugurated in presence of the representatives of the town and of the Tribunal of Commerce, while the Council of Administration of our Bank and the presidents of the affiliated institutions all attended. It was decided to create a service of inspection, and this proposal met with the unanimous approval of all the federated societies. The object of the inspection service is to offer material help to newly-founded institutions, and to facilitate their relations with our society which thus becomes their Central Bank. The group commenced its career under the most favourable auspices; on the 5th March following its foundation, it was received in audience at the Mentone Town Hall by M. Felix Faure, President of the French Republic, and had the honour of offering him a collection of documents concerning the organisation of popular and rural credit in the department.

In 1889 a group of men imbued with progressive ideas became pre-occupied with the backward state of our country in regard to co-operative credit, and decided to hold a congress for the purpose of linking up the few and scattered institutions that were then in existence. We at once took steps to identify ourselves with this happy initiative, and delegated our director to represent us. The Congress was struck by the results we had

already obtained, and in order to render homage to our society, it decided to hold its next conference at Mentone in the following year, and entrusted our delegate with the organisation of the meeting. The importance and the success of the second conference is a matter of history. It was attended by the most eminent economists, among others being M. Luzzatti and M. Wollemberg, the organisers of popular credit in Italy. Since then Congresses have been held regularly every year, and our institution allows no sacrifice to interfere with its identifying itself with them. The third congress held at Bourges determined on bestowing a mark of recognition on us for our fidelity to the co-operative idea, and accordingly promoted our delegate to the dignity of Vice-President of the federal centre of popular credit in France. These congresses are an excellent school of instruction, they provide a rallying point for fraternal advances and an effective means for sound propaganda.

Again in a further report laid before the Exhibition of Dijon, further mention is made of the increasing success of the movement:

'Our two branches at Monte Carlo and Beaulieu continue to second us effectually in the diffusion of co-operative principles. The latter was founded in December 1896, and has acquired an importance which has surpassed our anticipations. It has effectively identified itself with the development of the locality. It has become the treasurer of the local Syndicate, and the banker of the associations and works existing in the locality.

Eleven village banks now revolve round our bank which has promoted them, which fosters them and serves at the same time as their Central Bank, their counsellor and friend. The total of the advances granted them during the year 1896-97 amounts to 70,223 francs, being 4,322 francs less than in the preceding year. The

decrease affords us a ground for rejoicing, because it has coincided with an increase in the sum total of the business of the village banks themselves which are now beginning to supply their own needs out of the sources of local saving. The balances of the village Banks of Castellar, Garbio, and Sospel, among others which are published monthly in the bulletin of popular credit, show the progress made by these institutions in regard to the unfettered local employment of savings, and they are now able to finance themselves or very nearly do so.

The departmental group has now been two years in existence. It was created with a view to federate the societies of popular credit in the department, to co-ordinate their action and to aid their development. It is at present composed of twelve institutions, of which ten are village banks and two are popular banks. In virtue of its position as the oldest institution in the department, the Popular Bank of Mentone is the seat of the departmental group of the Alpes Maritimes. The president of the group is its director, M. Charles Rayneri, and the honorary presidents are the Comte de Chambrun, founder of the Musée sociale, and L. F. Palmaro, President of the Council of Administration of the Mentone Bank...... The group has organised a service of inspection. Last year it drew up a first set of statistics which show that the number of members belonging to the federated societies now amounts to 985, that their reserve funds have reached a total of 76,620 francs, that their credit operations have obtained a turn over of 28,371,026 francs, and that the saving deposits amount to no less than 1,120,100 francs, all of which has been saved from unproductive employment and now circulates freely in the department to the great benefit of commerce, industry and agriculture.'

But the evidence of an expert without any connection with the bank will show how the work of the bank strikes an outsider. The subjoined extracts are taken from an article by M. Charles Picot, inspector of finances.

"The Popular Bank of Mentone was founded in 1883. It began with a capital of 100,000 francs, and now has a capital of 364,000 francs. The capital shows a constant increase through the admission of new members who have to subscribe a share, but the management endeavours to stop this augmentation by utilizing transfers to furnish new members with the shares they require. The capital in this manner tends to become more subdivided which is an advantage in an association of persons all possessing equal rights in the general assembly. The democratic character of the institution is revealed by the weakness of the average number of shares possessed by each member as well as the degree of independence it exhibits towards capital. In the Mentone Bank the mean has fallen from 11·07 in 1891, 92 to 7·61 on the 30th June 1897. The character of the bank's capital is equally indicated by the profession of the members. Among 478 shareholders we only find 45 persons of independent income or pensioners, 32 in receipt of salaries, and eight engaged in liberal professions as against 393 artisans and tradesmen.

The bank's reserves amount to 70,000 francs which brings the whole of its patrimony to 434,000 francs. At the close of the last banking year 30th June 1897, the deposits amounted to 1,050,000 francs. Certain classes among these deposits are particularly interesting; independently of deposits in current account bearing interest at 1 per cent. or fixed deposits which represent the results of thrift on a small scale, the Bank opens Savings Bank deposits and receives on account of them payments from one franc upwards. The Savings Bank

deposits receive interest at the rate of 2·75 per cent. At the very time that the State took alarm at the responsibility it was incurring in regard to the continually increasing importance of its debt towards the Savings Banks which was all payable on demand, and had reduced in consequence the maximum of the deposit account from 2,000 to 1,500 francs as well as the maximum of the payments which could be made into any one deposit account in the same year, the popular Bank of Mentone raised from 1,000 to 2,000 francs the maximum of its deposit accounts without any limitation on the total amount of payments that might be made during the year. The effect of this measure is already being felt, and it cannot fail to contribute powerfully to the decentralization of savings.

Besides the facilities it affords for opening savings deposit accounts, the Bank has recently organized facilities for saving up rent. The deposits have a maximum of 400 francs, and can only be withdrawn by the depositor on the date fixed by him beforehand which coincides with the falling due of the rent at the end of the quarter. These deposits are by favour allowed an interest of 3 per cent.

The million and a half francs which represents approximately the sum total of the Bank's patrimony and deposits, has not come together of itself, but is in part the work of the bank which has prevented it from leaving the department and has kept it together to enrich all local activities. As soon as a client enters into relations with the bank his economic education commences ; he is made to understand that it is to his interest not to leave unproductive any funds he may have temporarily in hand ; and that, by entrusting the bank with all his monetary transactions, his accounts are simplified, while risk is reduced to a minimum.

The play and the advantages of a current account are explained to him, and when it is seen that he is becoming

attached to the bank, he is shown that it is his interest to become a shareholder in order to have a voice in controlling the bank's operations and to feel himself at home. The purchase of a share is made easy for him by the payment of the price, 100 francs, being spread out over ten months. He is encouraged to open Savings Bank accounts for each of his children, and he soon understands that it is better for him to bring his savings to his bank, and thus to contribute to its prosperity, than to abandon them to the State which employs them in a manner with which he is unacquainted. At each fresh operation his spirit becomes more and more awakened, he begins to perceive dimly without help all the services that the bank has it in its power to render him. As his status is usually that of a tradesman, artisan or workman, the new horizon which opens before him excites him to exertion, and from being a passive client he develops into an active client and helps to make reproductive the capital which he has himself assisted in accumulating.

What is the employment of the funds that the bank has collected, often franc by franc among such modest surroundings! They are especially utilized for financing the needs of persons in a small way of business. The Bank invariably prefers dealing in small values. Out of 9,288 bills discounted in 1896-97 for 3,573,192 francs the bills below 100 francs represent 42 per cent. of the total number with a mean average of 58 francs; bills below 300 francs 71 per cent. with a mean average of 113 francs; finally 86 per cent. that is nearly 8,000 bills are below 600 francs with a mean average of 173 francs per bill.

The chief employment of the funds confided to the bank consists of discounting bills of exchange, but besides this direct loans made for the most part on a single signature absorb comparatively large sums which go on

increasing with the growing prosperity of the Bank. In 1894-95 these loans reached the sum of 105,000 francs, that is, 30 per cent. of the capital; in 1895-96 they rose to 285,000 francs, that is, 80 per cent. of the capital; in 1896-97 to 2,98,000 francs, that is, 81 per cent. of the capital. The employment of funds in this particular class of business has a higher moral aim than any other of the bank's transactions. Any one examining the list of these loans cannot help feeling surprise at finding amidst a number of small sums from 50 to 300 or 400 francs a fair sprinkling of loans ranging from 2,000 to 4,000 francs. A closer scrutiny of the names discloses the fact that the most important loans are often granted to the same person, and one imagines that there must be a surety, a material guarantee enacted by the bank; there is nothing. The borrower's signature alone and his good name are his guarantees. He is known to be a good workman, to be in work, and to be sure to be able to pay back one day and trust is reposed in him for the execution of his promise.

The question arises when direct loans reach 81 per cent. of the capital of the bank whether it does not assume considerable risks under this head, and if the services it is able to render are not purchased at the expense of its security. A glance at the working of "the special reserve allotted for the purpose of covering losses sustained on credits on honour which have been opened with the sanction of the Council of Administration" is sufficient to remove all doubts on the subject. Facts better than theories show whether such fears are well grounded or not. This reserve has never since its creation in 1887 been drawn upon in the slightest degree. It remains intact and grows every year by the addition of 5 per cent. of the profits plus the share it derives from the payments of new shareholders. It now represents about 4 per cent. of the total amount of direct loans sanctioned

in a year. The whole of the reserves of the bank are equivalent to 24 per cent. of the total.

All ordinary banking operations find their place in the balance sheet of the popular Bank of Mentone, but there is perhaps none which it does not stamp in some special way best adopted to encourage thrift and to further the interests of its own favourite class of customer.

How are the profits of the bank distributed? It goes without saying that the distribution is effected in accordance with the purest principles of co-operation described in the first part of this study. At the close of the last working year the Council of Administration and the clerks' provident fund each received a sum of 1,000 francs; a subvention of 200 francs was also granted to the Federal Centre which has undertaken the duty of developing in France the practice of popular credit; a further sum of 2,426 francs, after allowing capital the maximum fixed dividend of 5 per cent., was carried over to the ordinary reserve, an equal amount was set aside for the staff, and 1,213 francs were appropriated for the special reserve. The balance which was too trifling to be divided was carried on to the next working year.

Every one who has visited the Bank and examined the proceedings of the sittings of the Council of Administration held regularly each week since the foundation of the Bank, must feel it a duty to pay a tribute of admiration to the devotion of the administrators who not only attend all meetings of the Council, but are on duty either at head-quarters or at the branches in turn, some one week in three, others one week in four every day of the week. Since the establishment of the Bank their President M. Francis Palmaro, a former assistant to the Mayor of Mentone, and ex-judge of the tribunal of commerce, has never failed to aid the managing director by giving him the benefit of his services almost daily. What a difference this shows

compared with the conduct of a great number, if not the majority of the administrators of Savings banks, who, rendered careless by the security which they enjoy through the guardianship of the State, find it difficult to attend regularly at the seven or eight sittings held during the year at which their presence is indispensable to secure proper control. No one can say either that the administrators of the Bank of Mentone are paid for their work. The hundred odd francs they receive yearly hardly defrays their travelling expenses, and the cost of the propaganda which they undertake considering it to be a necessary part of their duties.

It is difficult to imagine greater temptation than there must be for men at the head of a Bank like that of Mentone, to increase its capital and extend the sphere of its operations when capital flows in freely, attracted by the prospect of a 5 per cent. investment guaranteed by strong reserves. The administrators of the Mentone Bank have felt and still feel every day the temptation, but faithful to the co-operative principle in which their strength lies, they refuse to have anything to do with the capitalist who is not an inhabitant of their district, or with the customer or the member who live too far off to admit of the bank getting to know them well and obtaining precise and accurate information about them. But they do not profess to limit to their own immediate neighbourhood the benefits their bank has it in its power to bestow. The work they do not care to undertake, because they are aware that they could not do it as well as they might wish, they entrust to the care of suitable co-operative institutions which they raise up in the centres where there seems need of them and help to develop.

Their first step under such circumstances is to appeal to all well-wishers, and when a few persons, by means of incessant propaganda and continued exertions have been

brought to recognize the advantages of co-operation, and the need of possessing on the spot an instrument of credit, they get them to found either a popular bank or a village bank. They preside at the birth of the institution, they follow its progress day by day, lavishing on it their advice, their support by means of re-discount, and pave the way thus to the moment when the new institution, grown strong and experienced, can walk of itself and become in turn a centre of active propaganda, and a support for new and analogous institutions. The Bank of Mentone has done for other societies what we have seen it do for individuals. It is their economic foster mother, and protects and guides them till they come of age.

The tireless promoter of this swarming out movement from the popular Bank of Mentone in the Alpes Maritimes is M. Charles Rayneri, the managing director of the bank, who is endowed with all the qualities which are indispensable for the director of a popular bank ; he is at once an apostle and an educator. This is the secret of the marvellous results obtained during the last three or four years, results which are well fitted to serve as a model for all other French departments.

The first offspring of the Bank of Mentone was the popular Bank of Nice founded in 1891, which numbered, on 30th June 1896, 371 members, with 252,000 francs capital and reserves, and more than 400,000 francs deposits. The Bank of Mentone did not confine its efforts to taking the initiative in the creation of this institution. M. Rayneri undertook the management himself for several months and its staff was trained in the offices of the Mentone Bank. Nowadays it has an entirely independent existence.

A second popular bank owes its life to the Bank of Mentone, that is, the popular and agricultural Bank of Antibes founded on the 1st April 1895, with a capital of

15,000 francs. In two years and a half the capital has reached 60,000 francs paid up, while the reserves amount to 6·70 per cent. of the capital. The profits at the close of the working year 1895-96 have been distributed as follows :—54 per cent. for the dividend, 30 per cent. for the reserves, 10 per cent. for the staff, 6 per cent. to various undertakings of propaganda and charity.

Popular banks suited great centres like Nice and Antibes, but a less complicated instrument, which could be worked without a special staff and which could provide long-term credit, the need of agriculture, was required for the little rural communes. Village banks on the Raiffeisen system without capital and with unlimited liability were founded one after the other in eleven communes round Mentone. The oldest dates from 30th July 1893, the latest was created on the 25th October 1896.

The history of the foundation of each of these village banks is very much the same for each one. The Director of the Bank of Mentone comes across an intelligent man in the commune whom he indoctrinates with the advantages of co-operative credit; he soon gains him over entirely to his cause and makes him an apostle of the idea in his commune. When the pioneer has won over converts to a project for the formation of a village bank, and when he thinks a suitable moment has arrived, he calls on the Bank of Mentone for help. M. Rayneri, or one of his fellow-workers, goes down and holds a conference in the commune, demonstrates what advantages are likely to be reaped from a village bank, explains how the bank is to work and presides at that very meeting at the constitution of the new society. The object-lesson afforded by village banks already in working order is a powerful help for the foundation of new ones, for every member of an existing village bank becomes a propagator of the co-operative credit idea.

The mere founding of a society does not complete the work ; it is necessary to attract deposits, to overcome the repugnance that cultivators generally feel in coming forward as the first borrowers from the village bank, and acknowledging that their circumstances are temporarily embarrassed. The two half-yearly general assemblies, at which every member is bound to attend under pain of fine, help to educate them. The founders of the institution and the representatives of the Bank of Mentone are present at these meetings, and give all the advice that the financial position of the society requires. The brilliant position to which the village banks have attained is due to this continual patronage. A great number of them are of too recent date to have got into normal working order, but an idea of the facilities they are expected to offer can be gathered from a glance at the state of the oldest of the village banks that of Castellar.

This village bank was founded on the 30th July 1893, after eighteen months' hard work and ceaseless propaganda, in which the founder took an active part, in a commune containing 800 inhabitants and 220 electors. It was the result of union, the mayor, the parish priest and the founder forming the council of administration. At the beginning it only numbered nineteen members: the maximum of the bank's responsibilities was fixed at 6,000 francs, and the maximum loan to an individual member was fixed at 500 francs. The Bank of Mentone opened a credit in its favour for 6,000 francs at 4 per cent. The village bank allows 3 per cent. on its deposits and lends at 5 per cent. ; the difference between these two rates helping to defray general expenses and to constitute a reserve. After the first six months, owing to the complete failure of the olive harvest on which that part of the country chiefly depends, the village bank made 24 loans amounting to 5,300 francs. It would require a whole

article to adequately analyse the advantages due to the distribution of this small sum in a poor village like Castellar, but as this would be travelling beyond the scope of the present study, we must confine ourselves to a summary of the results obtained after four years' working. On the 31st August 1897, the village bank of Castellar numbered 72 members, that is to say, one-third of the registered electors of the commune. Current loans amounted to 9,335 francs, Savings bank deposits to 4,680 francs, and the reserve to 706 francs 85 centimes. As the olive harvest has again failed this year, the administrators foresee new demands upon them and are thinking of raising the maximum of the village bank's responsibilities to 15,000 francs. Two successive bad harvests in 1896 and 1897 have to answer for the difference between the sum total on loan and that held in the shape of deposits. The effect of these bad harvests has brought about the difference between the sum total of deposits and that of loans, for it is owing to the bad harvests that money has been withdrawn from Savings banks' deposits, but up to the 30th June 1896, the village bank was able to make headway with its own deposits and without having to have recourse to the popular Bank of Mentone.

In order to enable the institutions it has founded to help one another, and to keep working on the same lines as well as with a view to further the organisation of propaganda, the popular Bank of Mentone has federated them all into a "Departmental Group of the popular credit societies of the Alpes Maritimes," with M. Charles Rayneri as president. The group was founded in 1896, and has already aided in the foundation of four village banks, and, through the exertions of its inspector, it enforces the observance of the rules which are indispensable for the proper working of the federated institutions.

On examining in the bulletin of public credit, the latest published account of the financial position of the village banks, we find that the eleven village banks founded by the Bank of Mentone have, after an average existence of twenty-two months, 449 members, 19,120 francs in deposit, 3,211 francs in reserve and 38,900 francs on loan.

Such is the work of the popular Bank of Mentone. To judge properly the importance of its services, the spot itself should be visited and its work examined in detail; but the quality of its work cannot be measured by their mere money value. In a single county within fourteen years 1,400 persons have been organised into associations suited to their needs, nearly two and a half million francs of local savings have been kept on the spot and employed productively in all sorts of trade and business, in some cases through the agency of artisans in the very humblest walk of life, and one cannot help thinking of the social transformation that would be produced in France if each county possessed a similar centre of economic education, stimulating individual activity and constituting for every class of people the best school for solidarity. ....."

The above was written some months ago, but events march so swiftly in a movement of this kind, once it has taken root, that it is interesting to have the latest information possible. Everything seems to point to the fact that the period of probation for popular credit in this part of France is now over. It has been tried and has emerged successfully from the trial, and is now preparing a great start forward. In the bulletin of popular Credit for 1899, M. Rayneri states that the number of village banks has suddenly increased from 12 to 27, the increase being largely due to the initiative of a man of action who has been won over to the movement, and whose influence

was great enough to rouse up the people in the arrondissement of Puget Theniers to a proper appreciation of the benefits of co-operative credit. When the ground had been perfectly prepared beforehand, the authorities of the Bank of Mentone took the field and held a conference on the spot with the satisfactory result that one commune after another in Puget Theniers gave in its adhesion to the idea, and fifteen village banks were founded and joined the Departmental Group. Besides this M. Rayneri took part in conferences outside the Department of the Alpes Maritimes, which resulted in the foundation of three new village banks, while at the close of the congress at Angoulême in consequence of an address made by him to the small tradesmen of the place, it was decided to open a popular bank there. On his way back to Mentone yet another village bank was founded at Trans after the people had heard his explanation of the benefits afforded by a village bank.

The latest statistics available showing the financial position of the societies composing the Departmental Group of the Alpes Maritimes date from the 30th June 1898, the exact position of each society being ascertained annually at the close of the banking year. There were then twelve societies belonging to the Group, though now there are 27. The two popular banks of Antibes and Mentone began with 232 members; on the 30th June 1897 the number had risen to 564, and on the 30th June 1898, it had risen still further to 616. Their capital had increased in the twelve-month from 412,300 francs to 440,000 francs; their reserves from 73,928 francs to 76,489 francs. The deposits had reached 1,087,411 francs, the turnover of the portfolio 34,047,300 francs against 28,000,000 francs in 1896, the net profits 41,197 francs and the grand total of business 74,034,805 francs odd.

The ten federated village banks counted 306 members at their foundation, and now show 514 members on their

rolls. The reserves have risen to 3,722 francs, while the whole of the expenses in the last working year did not exceed 204 francs. The business done in loans including renewals amounted to 327,323 francs odd, while loans outstanding amounted to 38,893 francs odd. The village banks are gradually becoming able to meet the demands made on them for loans out of their own deposits.

Including popular banks and village banks there are now 1,130 co-operators as against 496 at the foundation of the banks, 80,211 francs in reserve, 1,111,550 francs decentralized savings deposits, and a grand total of business done 74,621,648 francs as against 64,013,837 in the preceding year.

There are, of course, any number of ordinary banks in France, but if in a country like France where the peasantry are noted for being the most frugal, the most saving and the richest in the world, there is room for village banks, how much greater must be the need of them in a country like India where well-to-do farmers owning their own land have no means of obtaining credit except by recourse to a money-lender. Even in our large towns in Northern India there are no facilities of credit outside garrisoned towns except the extremely archaic ones provided by the Sowcar. Never was such an opportunity for organising the credit of a country offered before as is now presented by the North-West Provinces. These provinces have always been the heart of India. Their supremacy as a great centre of trade was temporarily overthrown by the rise of the seaport towns, but the introduction of the railway all over India has again restored the advantage of their geographical position. In all the ancient cities of the North, in Agra, Delhi, Lucknow, mills are being erected, machinery is being introduced and new industries created by men of enterprise. But this is only a beginning. When in the course

of the next few years our railways begin spreading out from India, on one side to Pekin and on the other side to Smyrna, the North-West Provinces will resume their former imperial position ; they will then be not only the heart of India but the heart of Southern Asia. It remains for the inhabitants of the country to decide whether they will take steps to assert their economic supremacy over the countries of Southern Asia, or whether they will allow themselves to be ousted from their natural position by newer and more progressive nations. The first step lies in the organisation of the national credit. The national credit can only be organised by prior organisation of credit in each town and village. The stupendous task of organising the credit of a country like India might well appal the most courageous, but there is nothing impossible in the way of organising the credit of a single village or a single town, and when the credit of the unit is organised, the rest follows like clockwork.

In every town in Northern India there are now dozens of men who have received enough education and imbibed enough modern ideas to make them feel thoroughly discontented with their present surroundings and present conditions of life. They aspire to higher things, but do not see their way clearly to obtain them and for the most part give the matter up and fall to dreaming of the mythical ancient days when there was a golden age in India. It occurs to but few of them that if each man tried to live a pattern life, the present age could be brought within measurable resemblance of the old golden days. The altruistic sentiment is one which has always appealed powerfully to the Indian mind. Co-operation shows how the best way of helping oneself is to help one's neighbour at the same time. If the young men of education who now abound in our towns seriously wish to improve their own conditions and those in which their

fellow-citizens live, they cannot do better than study the principles of co-operation. They have the knowledge, and time hangs heavily on the hands of many of them. No matter how small the beginning the movement will grow. The bank set up in the town, if true to the co-operative faith, will radiate over the district, the federated town banks will spread their influence over the province. All that is wanted is for each believer to work steadfastly in the little area bounded by his own horizon.

APPENDIX I.

SPECIMEN RULES FOR A CO-OPERATIVE TOWN BANK.

THESE rules are chiefly founded upon those in actual use in the Popular Bank of Milan. The rules are not meant to be adopted as they stand, but are intended to serve as a guide for any one wishing to draft a complete set of rules for an Indian Town Bank. They have been made as simple as possible, and everything which could be put in afterwards as a bye-law has been eliminated. Legal advice should always be taken by any one framing rules for actual use, as this course, though expensive in the beginning, is likely to save much greater expense in the future.

Certain modifications have had to be made in the Italian rules as, owing to the defective state of Indian Company Law, it is necessary to change the outward form of a co-operative society in order to permit of its being registered. The law is not hostile, it simply has no conception of societies with variable and unlimited capital. It is so defective that it would be impossible to register a friendly or a building society in India except under the Companies Act, an act which is quite unsuited for the requirements of benefit societies. In order to allow of our association having as great a freedom as possible for dealing with its shares, we have come to the conclusion that the best way of bringing a co-operative society under the Act with the least harm to its principles would be to register as a company limited by guarantee and having a capital divided into shares. Most clubs in Northern India which register as limited liability companies adopt the limitation by guarantee, with or without a share capital and find the system work very well. The guarantee need only be nominal, and though it is a superfluous luxury

for a co-operative society, it is not much to give in return for the benefits secured by registration.

MEMORANDUM OF ASSOCIATION

OF

THE M......CO-OPERATIVE TOWN BANK, LIMITED.

I. The name of the Company is The M.... Co-operative Town Bank, Limited.

II. The Registered Office of the Company will be situate in the North-West Provinces, India.

III. The objects for which the Company is established are—

(a) To provide credit for its members by means of co-operation and saving.

(b) To establish, and support or aid in the establishment and support of associations, institutions, funds, trusts and conveniences calculated to benefit its members, or its employés, or persons engaged in agriculture, and to subscribe or guarantee money for charitable or benevolent objects, or for any public, general, or useful object.

(c) To grant loans to its members on personal or other approved security.

(d) To carry on the business of banking in all its branches and departments, including the borrowing, raising or taking up of money, and the lending or advancing of money, and the discounting, buying, selling and dealing in bills of exchange, promissory notes, coupons, drafts, bills of lading, warrants, debentures, scrip and other instruments and securities whether negotiable or not, and the receipt of money and valuables on deposit or for safe custody, and the negotiation of loans and advances, and the collection and transmission of money and securities, and the management of property, and the

transaction of all kinds of agency business commonly transacted by bankers which may seem to the Company directly or indirectly conducive to the interests or convenience of the Company's members.

(*f*) To take or concur in taking all such steps and proceedings as may seem best calculated to uphold and support the credit of the Company, and to obtain and justify public confidence, and to avert or minimise financial disturbances which might affect the Company.

IV. Every member of the Company undertakes to contribute to the assets of the Company, in the event of the same being wound up during the time that he is a member or within one year afterwards, for the payment of the debts and liabilities of the Company contracted before the time at which he ceases to be a member, and the costs, charges and expenses of winding up the same, and for the adjustment of the rights of the contributories amongst themselves, such amount as may be required, not exceeding rupees ten (10) and which contribution is in addition to all entrance fees and subscriptions that may have been paid by him.

We, the several persons whose names and addresses are subscribed, are desirous of being formed into a Company in pursuance of this Memorandum of Association.

	Names, addresses and descriptions of Subscribers.	Witness.
1	(Sd.) A. B. ...	(Sd.) C. D.
2	(Sd.) ...	(Sd.)
3	(Sd.) ...	(Sd.)
4	(Sd.) ...	(Sd.)
5	(Sd.) ...	(Sd.)
6	(Sd.) ...	(Sd.)
7	(Sd.) ...	(Sd.)

Dated the *August* 189 .

Articles of Association of THE M......CO-OPERATIVE TOWN BANK, LIMITED.

1. The capital of the Company shall consist of ten thousand rupees, divided into one thousand shares of ten rupees each.

2. The Directors may with the sanction of the members of the Company in general meeting increase or reduce the amount of shares.

3. The Directors may with the sanction of the Company in general meeting cancel any shares belonging to the Company.

Members.

4. Every member must acquire at least one share; no member can hold more than fifty shares.

5. The members of the Company shall consist of (1) the persons who have subscribed to the Memorandum and Articles of Association, (2) such persons as shall from time to time become members of the Company by election under these rules.

6. Any person desirous of becoming a member of the Company must present a written application to the Council of Administration (Board of Directors) stating his willingness to conform to the rules in force of the association. The application must be countersigned by two members as a guarantee of the good character of the candidate for membership.

If the application is rejected, the candidate has a right of appeal to the Committee of Arbitrators.

7. The candidate for membership whose application is accepted shall thereupon sign his name in the register containing a list of the names and addresses of the members of the Company. Upon signing his name in the register the candidate shall be deemed to have acquired all the rights, obligations, responsibilities and liabilities of a member of the Company as laid down in its rules.

8. The candidate on admission to membership shall pay an entrance fee to the amount of and in the instalments which for the time being have been fixed by the General Assembly (meeting).

9. The new member shall acquire a share upon admission or within ten months after admission, provided that if the payment of the share is made in instalments, not less than one rupee be paid each month by way of instalment.

10. The member who has completely paid up his entrance fee and has paid up at least half the value of his share and has been at least two months on the register of the Company has the right (*a*) to vote in the General Assemblies [meetings], (*b*) to obtain credit from the company within the limits and in the manner laid down in its rules.

11. The shares are personal; they may not be pledged, sold, or transferred in any way without the previous consent of the Board of Directors (Council of Administration). If a share falls into the hands of any person not already a member, the Company shall not be bound to register or recognize the transfer until the holder has been admitted as a member.

Any member becoming possessed of more than fifty shares, either through inheritance or in consequence of a decree of a Court of Law or through any other cause must take measures to dispose of them within a term of six months. Should the member fail to fulfil this obligation the Board of Directors, after due notice of not less than three months, shall themselves take measures for the surplus shares to be sold to another member, holding the sum realised at the owner's disposal.

12. A member who has completed the payment of his share and entrance fee is entitled to a share in the dividends, beginning from the quarter (reckoned according to the solar year) following that in which his payment is completed.

13. A member loses his right of membership and forfeits any instalment already paid up, if, for reasons considered

insufficient by the Board of Directors, he gets three months in arrears with the instalments due on his share.

14. The Board of Directors may expel any member from the Association:

I. If he has compelled the company to take judicial proceedings against him to force him to fulfil the obligations he has undertaken towards it.

II. If he has committed any dishonourable action provided that in both cases the amount of the value of the share or shares held by him shall be refunded by the Company.

The member expelled has a right of appeal to the Committee of Arbitrators.

General Meetings.

15. The general meetings [assemblies] of members are either ordinary or extraordinary.

16. The ordinary general meeting shall take place once a year on the first Monday in at such place as may be determined by the Board of Directors.

17. The Board of Directors may, whenever they think fit and they shall, upon a requisition made in writing by any or more members or upon a requisition made by the Committee of Control, convene an extraordinary general meeting.

18. Any requisition made by the members shall express the object of the meeting proposed to be called and shall be left at the registered office of the Company. Upon the receipt of such requisition the directors shall proceed forthwith to convene a general meeting.

Proceedings at General Meetings.

19. Seven days' notice at the least specifying the place, the day and the hour of meeting, and in case of special business, the general nature of such business shall be given to the members in manner hereinafter mentioned or in such other manner, if any, as may be prescribed by the Company in

general meeting; but the non-receipt of such notice by any member shall not invalidate the proceedings at any general meeting.

20. All business shall be deemed special that is transacted at an extraordinary meeting, and all that is transacted at an ordinary meeting with the exception of the consideration of the accounts, balance sheets and the ordinary report of the directors.

21. Not less than members are required to form a quorum. If within one hour from the time appointed for the meeting a quorum of members is not present, the meeting, if convened upon the requisition of the members, shall be dissolved. In any other case it shall stand adjourned to the same day in the following week at the same time and place; and, at such adjourned meeting, the deliberations and resolutions shall be valid whatever the number of members present.

22. The Chairman of the Board of Directors [Council of Administration] shall preside as Chairman at every general meeting of the Company.

23. If at any meeting the Chairman is not present at the time of holding the same, and if the Vice-Chairman is also absent, the members present shall elect some one of the Board of Directors to be Chairman of such meeting.

24. The Secretary of the Board of Directors shall act as Secretary of the general meeting.

25. The Chairman may, with the consent of the meeting, adjourn any meeting from time to time and from place to place; but no business shall be transacted at any adjourned meeting other than the business left unfinished at the meeting from which the adjournment took place.

Voting.

26. Every member shall have one vote and no more, whatever the amount of his shares.

No proxies are allowed.

27. Questions arising at any general meeting shall be decided by a majority of votes. When on any question

before the general meeting the voting is equal, the motion shall be considered lost.

28. When any proposal for the modification of the present rules is before the general meeting at least members must be present before it can be taken into consideration. No such proposal shall be deemed to be passed unless three-fourths of the members present vote in favour of it.

The Board of Directors.

[The Council of Administration.]

29. The number of directors shall be sixteen; they must all be members of the Company; they shall be elected by secret ballot in the general meeting; their term of office is for two years, and they shall be eligible for re-election on the expiry of their term of office. Half the directors shall retire annually.

At the close of the first year of the Company's existence one half of the directors shall retire, and it shall be decided by lot which half retire. In every subsequent year the one half of the directors who have been longest in office shall retire.

Powers of Directors.

30. The powers of the Board of Directors shall extend over all the business of the Company subject to any reservations that the general meeting may make from time to time in its resolutions or which are expressly made in these articles. The principal functions of the Board of Directors are—To nominate, suspend or dismiss employés, to fix their functions and pay, to direct and supervise all the affairs of the Company, to draw up and enforce bye-laws for the regulation of the business of the Company, to draw up the balance sheet, to propose the methods of distributing profits, to prepare the annual reports for the general meeting, to fix the interest on loans, as well as the commissions to be charged on business, to administer the moveable and immoveable property of the Company.

31. Every director shall be indemnified by the Company against all losses and expenses incurred by him in or about the discharge of his duties.

32. The Board of Directors may empower any one of their number together with the business manager to sign on behalf of the Company for any specified act or business. It may further empower the business manager alone or other employés to sign on behalf of the Company for any specified act or business.

33. The directors may institute, conduct, defend, compromise, refer to arbitration and abandon legal and other proceedings, and claims by or against the company or directors or officers of the Company and otherwise concerning its affairs.

PROCEEDINGS OF THE BOARD OF DIRECTORS.

34. The Board of Directors shall meet together for the despatch of business once every week. They may adjourn and otherwise regulate their meetings as they think fit and determine the quorum necessary for the transaction of business. Questions arising at any meeting shall be decided by a majority of votes. In case of an equality of votes the Chairman shall have a second or casting vote.

35. The meetings of the Board of Directors shall be presided over by a chairman who must be a director, but whose election shall be made at a general meeting of the Company by secret ballot. If the Chairman is not present at any meeting, the Vice-Chairman who must also be a director, but whose election shall be made at a general meeting of the Company by secret ballot shall take the chair. If neither the Chairman nor the Vice-Chairman is present at any meeting the oldest member present shall take the chair.

36. The directors may choose one of their number to act as secretary to the Board, but if they think fit they may choose an outside member for the post.

37. All minutes of the meetings of the Board shall be signed by the Chairman of the meeting and by the Secretary, and shall be entered into a book kept for the purpose.

38. The Chairman and the Vice-Chairman of the Board of Directors are forbidden to take loans from the Company or to present bills for discount during their term of office.

Dividends and Reserve Fund.

39. No dividend shall be payable except out of the profits arising from the business of the Company.

40. The profits shall ordinarily be distributed as under: 70 per cent. for distribution as dividend to be paid to the members in proportion to their shares, 20 per cent. to the reserve fund, 10 per cent. to be placed at the disposal of the Board of Directors for employment in rewarding employés of the bank and in furthering works of charity and public utility. Any portion of this allotment, which the Board does not think necessary to distribute, shall be replaced at the disposal of the Company.

41. The directors may, subject to the consent of the general meeting, before recommending any dividend, propose that such sum as they think proper be set aside out of the profits of the Company towards the reserve fund to meet contingencies.

42. The reserve fund shall consist of—

The entrance fees of members.

The sum annually voted to it out of profits.

43. The directors may deduct from the dividends payable to any member all such sums of money as may be due from him to the Company on any account.

No dividend shall bear interest as against the Company.

44. Whenever the reserve fund shall equal in amount half the share capital of the Company, the share of the profits previously assigned to it shall be included in the share available for distribution as dividend. Should the reserve fund from any cause fall below in amount half the capital the share of the profits that it had formerly enjoyed shall again be assigned to it.

Officers of the Company.

45. The Board of Directors shall have power—

a. To appoint such officers, clerks and servants as may be necessary to conduct the business of the Company.

b. To suspend or remove any officer, clerk or servant of the Company.

The business manager (Managing Director) of the Company is included in the officers of the Company.

46. Not less than three-fourths of the directors shall be present at a meeting when any resolution is passed appointing or dismissing any officer, clerk or servant of the Company.

47. The business manager shall give such security as the directors think proper.

48. The executive portion of all the operations of the Company shall be entrusted to the business manager under the guidance and orders of the Board of Directors and in accordance with rules that the Board may frame for the purpose.

The business manager shall take part in the meetings of the Committee of Discount and shall be admitted with an advisory voice to the meetings of the Board of Directors unless the meeting is declared to be a secret one.

The business manager is the head of the Company's employés. He is empowered to propose employés for admission or promotion and to suspend them provisionally subject to an immediate reference to the Board of Directors for further orders.

In the absence or illness of the business manager one or more persons delegated by the Board of Directors may carry on his duties temporarily under the supervision and subject to the orders of the Board of Directors.

49. The cashier is responsible for the treasury. He shall furnish security to the Board of Directors for the faithful discharge of his duty to the satisfaction of the directors in such amount and in such manner as they think proper.

His duties and responsibilities shall be determined by the Board of Directors by special rules drawn up for the purpose.

50. The business manager and other employés of the Company may, if the general meeting passes a resolution to that effect, be remunerated with fixed salaries. Any person accepting service under the Company shall, if not already a member, at once become one.

The Committee of Discount.

51. The members of the Committee of Discount shall be chosen by a Committee of three members elected by the general meeting of members, and whom the general meeting shall expressly empower for the purpose.

52. The Committee of Discount shall be composed of forty members of the Company, who shall take it in turn three by three every week sitting with one of the directors to constitute the Working Committee of Discount.

53. No bill of exchange shall be discounted, and no loan shall be granted unless the Working Committee of Discount has previously signified its approval.

The business manager and all other members of the Company are bound to furnish information when asked for it by the members of the Working Committee of Discount. No member of the Working Committee of Discount shall present any bill for discount during the week he is on duty.

The Committee of Audit and Control.

54. The Committee of Audit and Control shall consist of three members elected at the annual general meeting by secret ballot. Two extra members may also be elected at the same time in order that some one may be always ready to take the place of any of the three members of the Committee who may be prevented from illness or any other cause from attending to his duties continuously.

The term of office of the members of this Committee shall be for one year. Any member shall be re-eligible for election.

55. The duties of the Committee of Control are—

a. To check all operations of the Company's business from time to time.

b. To verify the books of the Company from time to time.

c. To count and verify the cash in hand, securities and valuables deposited with the Company at least once a month.

d. To check the annual balance sheet and accounts and report upon them at the general meeting, and in every such report they shall state whether in their opinion the balance sheet is a full and fair balance sheet and properly drawn up so as to exhibit a true and correct view of the state of the Company's affairs, and in case they have called for any explanation or information from the directors whether it has been given by the directors and whether it has been satisfactory.

Such report shall be read together with the report of the directors at the annual meeting.

The members of the Committee of Audit and Control shall at all reasonable times have full access to the books, accounts and other documents of the Company and may in relation to such accounts examine the directors or any other officer of the bank.

The Committee of Arbitration.

56. The Committee of Arbitration shall be composed of three members of the Company elected at a general meeting. Their term of office shall last for two years and they shall be eligible for re-election.

57. The Committee of Arbitration shall decide finally in all matters in which a right of appeal is expressly reserved to it in these articles. It shall, if required, lend itself to conciliate all quarrels that may arise among members and all disputes that may arise between members and the office bearers or servants of the Company in regard to the Company's business.

Business.

58. The Company is authorized to carry on and transact the several kinds of business already mentioned in the Memorandum of Association and especially including—

1. The advance and lending of money on personal or other approved security.
2. The advancing and lending of money, and opening of cash-credits upon the security of promissory notes and accepted bills of exchange, and promissory notes endorsed by the payee.
3. The drawing, discounting, buying and selling of bills of exchange and other negotiable securities payable in India.
4. The receiving of deposits and keeping cash accounts on such terms as may be agreed on.
5. The acceptance of the charge and management of plate, jewels, title-deeds or other valuable goods on such terms as may be agreed upon.
6. The transaction of pecuniary agency business on commission.
7. The receiving, as agent on commission, of the proceeds whether principal, interest or dividends of any securities or shares.
8. The promotion of agricultural credit.

59. The directors are forbidden—

1. To make any loan or advance to any person who is not a member of the Company, except in the case of loans on honour as provided in these rules.
2. To discount any bill of exchange which shall not bear upon it the signature of at least one member of the Company.
3. To allow any person who is not a member of the Company to overdraw his account.
4. To open cash-credits for any one who is not a member of the company, unless on account of an affiliated agricultural loan society.

60. No loan shall be granted for a period exceeding six months. Renewals for further periods, the total of which shall not exceed four months may be granted provided that at least one-fourth of the original advance is repaid when the loan falls due. Repayments may be made in instalments provided the instalments are all paid within the period for which the loan is granted.

61. To obtain a loan or discount a member.

Must not be in delay with his payment to the Company on account of any liability he has incurred towards it, and must not have caused loss to any surety in a previous transaction.

Must be in a position to offer satisfactory guarantees for the fulfilment of the obligations he proposes to assume.

62. Loans may be granted to members provided they do not exceed double the amount paid up by them on their shares.

Loans of higher amount may be granted on approved security subject to the joint consent of the Board of Directors and the Working Committee of Discount.

The smallest loans and discounts shall always have the preference over all others.

63. The member whose application for a loan or discount has been refused has a right of appeal to the Committee of arbitrators, who shall decide the matter finally after hearing the views of the business manager.

64. The general meeting shall fix annually, after hearing the proposals of the directors on the subject, the maximum amount of credit that any one member may enjoy at any one time during the year. No member shall be allowed credit whether in the form of a loan or discount or current account for a sum exceeding the amount duly fixed at the general meeting.

65. Upon demand made by the Board of Directors the general assembly shall fix each year the amount which may be employed in loans on honour whether to members or non members. Loans on honour are granted without security.

The amount devoted to this head shall under no circumstances exceed one per cent. of the share capital of the company.

66. The Board of Directors shall from time to time subject to the approval of the general meeting make bye-laws regulating the circumstances under which loans on honour shall be granted.

67. The Board of Directors may from time to time, subject to the approval of the general meeting, make bye-laws regulating the following matters :—

(*a*) the distribution of business among directors ;

(*b*) the procedure at the meetings of the Board ;

(*c*) the books and accounts to be kept up at the head and other offices respectively ;

(*d*) the reports and statements to be made by the accountant, the heads of departments and other officers of the Company ;

(*e*) the management of the branches and agencies and generally for the conduct of the business of the Company.

68. The members of the Committees of Discount, of Arbitration, of Audit and Control may make bye-laws regulating the procedure to be followed at the meetings of their respective committees.

Provided that no bye-law, or alteration or rescission of any bye-law shall be of any validity except in so far as the same is consistent with these articles.

Accounts.

69. The books of account shall be kept at the registered office of the Company and subject to any reasonable restrictions as to the time and manner of inspecting the same that may be imposed by the Company in general meeting, shall be open to the inspection of the members during the hours of business.

70. A balance-sheet shall be made out in every year and laid before the Company in general meeting together with the report of the directors and the report of the Committee of Audit and Control, and such balance-sheet shall contain

a summary of the property and liabilities of the Company arranged under the heads appearing in the form annexed to Table A of the Indian Companies Act, 1882, or as near thereto as circumstances admit.

71. The Company shall be wound up voluntarily whenever an Extraordinary Resolution, as defined by the Indian Companies Act, 1882, is passed requiring the Company to be wound up voluntarily.

We, the several persons whose names and addresses are subscribed, agree to take the number of shares in the capital of the Company set opposite our respective names.

	Names, Addresses, and Descriptions of subscribers.	Number of shares taken by each subscriber.
I	in the District of ——— witnessed by	
II		
III		
IV		
V		
VI		
VII		
	Total shares taken	

SPECIMEN BYE-LAWS RELATING TO THE CONTROL OF BUSINESS.

A.—Cash Credit.

Taken from model rules of a Co-operative Bank, Italy (Mr. Nicholson's translation).

1. A member who desires to open a cash-credit with the bank must present his application stating the proposed amount of credit and the security which he offers. No one who is unable to read and write shall be allowed to open a credit.

2. The application will be submitted to the Discount Committee which after examination of the status and solvency of the candidate and his sureties will admit, modify or reject his request.

3. Should the application be accepted the candidate must present himself at the office with the persons tendered as sureties and deliver a promissory note of an amount and term corresponding with those of the cash-credit. The full amount without deduction of interest will then be placed at his disposal as a drawing account.

4. The holder of the credit will receive a pass book and a cheque book; the former will contain entries of the credit amount, and of all drawings and in-payments; the latter serves for drawings.

5. The holder of the credit may draw up to nine-tenths of his credit either in one or several instalments; one tenth is withheld by the bank as a guarantee for the interest, and charges due on the advance. He is at liberty to pay into the credit of his account any sum not exceeding his drawings; any excess will be transferred to ordinary deposit.

6. The directors may vary according to circumstances and even before the expiry of the credit term, the rates of interest payable by and to the credit-holder.

7. Interest shall be calculated and paid up quarterly and at the closure of the credit. Interest due by the credit-holder shall at each period be added to the amount at his debit; that due to him shall be placed to his credit. The credit-holder must give the bank an acquittance, acknowledging the correctness of the account.

8. When the credit-holder shall not, during two successive quarters, have made any repayment on his account, the bank shall have the right to close the account, and may demand the immediate repayment of the whole amount drawn and of all charges without waiting for the expiry of the term agreed upon.

9. All charges, stamp duties, etc., must be paid by the credit-holder at the opening of the credit. The pass book and all unused cheques must be returned at the closure of the credit to the bank, which will then return the promissory note cancelled.

10. All rules relating to ordinary deposits in the matter of the currency of interest, to notice of drawings, to the form of pass book and cheques and the signatures therein, are applicable to cash-credits.

B.—Ordinary Deposits in Account Current.

1. A depositor may withdraw up to 200 Rs. at sight, from (Rs. 200 to Rs. 400) at one day's notice (and so forth).

2. The bank reserves to itself the right to refuse deposits; either in whole or part; also to pay on demand any sum however large.

3. No depositor can draw in a single day, nor will the bank pay more than (Rs. 200) at sight, even though the cheques presented may bear different dates; nor shall any depositor draw at sight during the interval between notice of intention to draw and actual drawing, nor on the day of such drawing. Notice of only one drawing may be given on a single day, and during the currency of such notice no further notice may be given.

C.—Savings Deposits.

1. The rate of interest on Savings Deposits shall be superior to that on ordinary deposits.

2. On the opening of an account the bank will provide the depositor with a pass book, signed by a director, by the manager and by the cashier and containing the chief rules governing such deposits. Each pass book bears a number corresponding to that given to the account in the bank's registers. On the cover of the pass book must be entered clearly the name and address of the depositor.

3. The owner of a pass book must write his signature in the bank's register of signatures as required in the case of accounts current.

4. Pass books may bear a special lien; in such cases the nature and conditions of the charge must be expressly entered in red ink on the cover, as also in the bank's register ledger.

5. Every entry in the pass book of in-payments or withdrawals must be in letters and figures and signed by the book-keeper and cashier.

6. No in-payment will be received or withdrawal allowed without the production of the pass book. Withdrawals on pass books can only be made by the owner or his duly accredited agent.

7. In-payments of less than one rupee will not be received as deposits.

8. Only one pass book can be granted to or operated on by a depositor. Depositors can withdraw up to Rs. 40 at sight, up to Rs. 200 on two days' notice (and so forth). During the currency of the notice no sum can be withdrawn or further notice given by the depositor.

D.—Petty Savings.

1. The rate of interest on petty savings deposits shall be higher than that on ordinary savings deposits.

2. Petty savings deposits shall be governed by the rules relating to ordinary saving deposits except in so far as the following rules differ.

3. The pass books of petty savings and ordinary savings deposits shall be separately numbered and have differently coloured covers.

4. In payments of less than one anna will not be received, nor will withdrawals of less than one rupee be permitted.

5. No in-payment of more than Rs. 40 shall be received on one account in any one day, nor more than Rs. 400 in any one year, nor more than Rs. 800 in all including interest credited thereto.

6. Should the account pass Rs. 800 it shall be transmuted into an ordinary savings account.

7. A depositor may withdraw up to Rs. 10 at sight, from Rs. 10 to Rs. 20 on two days' notice (and so forth).

8. No withdrawal at sight can be claimed as of right within one week of a previous payment.

Materials for drawing up bye-laws for loans on tenures have already been given in Chapter II, Part II. No specimen bye-laws are given as regards the granting of loans on promissory notes or the discounting of bills of exchange, for the rules on these two heads will vary a good deal according to the views of local people; moreover the matter is one in regard to which there are many people in the bazaar possessing skilled knowledge, so that there is no need for guidance rules.

APPENDIX II.

SPECIMEN RULES

FOR A

VILLAGE BANK, UNLIMITED.

(Modelled as far as possible on Mr. Wolff's rules for a Village Bank.)

MEMORANDUM OF ASSOCIATION

OF

The N.............. Village Bank.

1. The name of the Company is The N...... Village Bank.
2. The registered office of the Company will be situated in the North-West Provinces, India.
3. The objects for which the Company is established are—
   (*a*) to provide credit for its members by means of co-operation and saving;
   (*b*) to create funds by monthly or other contributions to be lent out to or invested for the members of the Company or for their benefit, provided that every loan shall, in the opinion of the Company, hold out a sufficient prospect of repaying itself by the production, business or economy which it will enable the borrower to effect. The contribution to be payable by a member to the funds of the Company shall be a contribution equally with every other member to any loan which a member borrowing or his sureties fail to repay;
   (*c*) to establish and support or aid in the establishment and support of funds, trusts and conveniences calculated to benefit its members, and to subscribe or guarantee money for charitable or benevolent objects;
   (*d*) to make, accept, indorse, execute and issue promissory notes and other negotiable instruments.

4. The Society shall not engage in any banking operation other than as implied in the foregoing statement of its objects, nor trade or speculate with the money in its hands, but shall confine itself strictly to the collection and lending of funds.

We, the several persons whose names and addresses are subscribed, are desirous of being formed into a Company in pursuance of this Memorandum of Association.

	Names, Addresses and Signatures of Subscribers.	*Witness.*
1	Sd. A. B. ...	Sd. C. D.
2	Sd. ...	Sd.
3	Sd. ...	Sd.
4	Sd. ...	Sd.
5	Sd. ..	Sd.
6	Sd. ...	Sd.
7	Sd. ...	Sd.

ARTICLES OF ASSOCIATION

OF

THE N.... CO-OPERATIVE VILLAGE BANK.

I.—The Company for the purpose of Registration is declared to consist of Fifty Members.

The Punchayet hereinafter mentioned may, whenever they think fit, register an increase of members.

II.—Membership.

The members of the Bank shall consist (I) of such persons as shall from time to time become members of the Bank by election under these rules; (II) of such persons as have subscribed to the Memorandum and Articles of Association.

Every candidate for admission as a member in the future shall be proposed by one member of the Bank in an application in writing addressed to the Punchayet. The Punchayet may either accept or reject the application, but in the latter case an appeal shall lie to the next General Meeting.

Every candidate for admission must be a resident in the village, where the bank is established, or settled within a radius of five miles of the bank's office.

III.—Rights and Liabilities of Members.

Every person becoming a member of the Bank shall be entitled to obtain loans from the Bank for specified and approved purposes within the limit prescribed for such period, and at such interest as the Company may determine. Membership furthermore entitles him to attend all General Meetings, in which the full powers of the Company are vested, and to give his vote in the election of the governing bodies and of officers of the Bank. All money payable by a member to the Bank are deemed to be a debt due from such member, and are recoverable as such in the Civil Court of the District in which such member resides.

IV.—The General Meeting.

The supreme authority in the Company is vested in the General Meeting of members of the Company at which every member has a right to attend and vote on all questions, every member having one vote whatever be his interest in the Society. The vote is to be exercised in person only not by proxy. The General Meeting shall have power to decide any disputes arising within the Company, and to hear and adjudicate upon any appeals carried before it against decisions of any of the governing bodies. Its judgment shall in every case be final. An Ordinary General Meeting of members shall be held at least once every year. The first business of the Annual General Meeting shall be to receive and consider the balance sheet and accounts for the year, and if these are found satisfactory, to approve them and give a discharge to the officers responsible. It shall next elect the Committee of Management [the Punchayet], the Council of Audit and Control for the year, and any other officer required to be appointed under the rules. It shall be for the General Meeting to fix the rates of interest alike for deposits paid in and loans granted, to limit the power of the Punchayet in respect of granting loans or receiving deposits, and also in respect of the length of time for which loans may be granted by the Committee upon its own responsibility, to prescribe fines not exceeding four annas if it so choose,

for non-attendance of members at meetings and for infractions of the rules. In respect of fines and rates of interest, a Special General Meeting shall have the same power as the Annual General Meeting, provided that due notice be given in the summons to be issued at least a clear fortnight before the meeting, and Special General Meetings shall also be entitled to fill up any vacancies which may have arisen in the appointments of officers or in either the Punchayet or the Committee of Control by new elections for the current year only. It shall always be in the power of the Punchayet or the Committee of Control to call a Special General Meeting, and on a demand signed by not less than one-fifth of the number of members, it shall be the duty of the Chairman of either of these bodies to do so.

V.—The Punchayet.

The current business of the Bank shall be entrusted to a Committee of Management known as the Punchayet consisting of five members elected every year by the members at the Annual General Meeting and re-eligible on the expiry of their term of office. The Punchayet shall have power to act on behalf of the Bank within the limit laid down in these rules, but shall be responsible for its acts to the general meeting of members. The members of the Punchayet shall draw no salary or other remuneration. The Punchayet shall elect its own Chairman who shall also preside at the General Meetings of the Society, and who shall in divisions have a casting vote. The Punchayet shall meet once a fortnight, three members constituting a quorum, to receive the deposits paid in and deal with all applications for membership and for loans to hand at the time. At the close of every such sitting the Punchayet shall draw up a statement of accounts, showing the amount of loans outstanding, of deposits on hand, of the reserve fund, of fines paid, and all assets and liabilities of the Bank together with the number of members. This statement shall be accessible to every member. No member of the Punchayet shall be allowed to vote on an application for a loan made by himself.

It shall be the duty of the Punchayet at the close of its year of office to prepare a balance sheet and full statement of accounts showing all the financial transactions of the year, and all assets and liabilities, and it shall be the duty of the Chairman of the Punchayet to present such balance sheet and statement to the General Meeting and report upon the business done.

The Punchayet shall cause the accounts of the Bank to be regularly entered in proper books.

VI.—The Committee of Audit and Control.

In addition to the Punchayet there shall be a Committee of Audit and Control consisting of at least three members, who shall not be members of the Punchayet, likewise elected annually by the members at the General Meeting. The Committee shall elect its own Chairman. Its members shall receive no salary or remuneration. The Committee shall have free access to all accounts, documents, minutes, and other records of business done on behalf of the Bank. It shall meet at least once every three months to audit the accounts, review the business transacted by the Punchayet, satisfy itself that all rules have been complied with and discharge duties to be named hereafter. The Committee shall annually report to the General Meeting and may, in cases which appear to it to demand urgency, call an Extraordinary General Meeting to lay any matter before it.

The Punchayet may appoint a Secretary Accountant and also a Treasurer who shall both be liable to dismissal by the same authority. Neither shall be a member of the Punchayet or the Committee of Control. At the discretion of the Punchayet the Treasurer shall be required to find security or sureties.

VII.—Retirement and Expulsion of Members.

A member may withdraw from the Bank, upon three months' notice, provided that he has satisfied all claims in respect either of money or of suretyship which the Bank may have against him, but such withdrawal shall not take effect in respect of the member's liability to make contributions under Article   of the Memorandum of Association

until twelve months thereafter. A member having, in the opinion of the Punchayet, committed any action calculated to injure the Bank may, upon proper notice given to every member, be expelled by Resolution of a General Meeting of members summoned a fortnight before the day of meeting. A member leaving the village shall cease to be a member of the Bank upon discharging all claims which the Bank may have against him. Members expelled from the Society, or retiring by leaving the village or by notice shall lose their right of voting as soon as the expulsion or retirement takes effect, but shall remain liable for any claims which the Bank may have against them.

VIII.—LOANS.

Any member desiring a loan shall make his request in writing to the Punchayet, on a form provided for the purpose, stating the object for which the loan is required, the term for which it is asked, and also the security which he is prepared to offer. The Punchayet shall consider the matter at its next meeting, but shall be entitled to reserve its decision for enquiries. If satisfied of the trustworthiness of the applicant, of the sufficiency of the security offered, whether by surety only or by some additional pledge or guarantee, and of the profitableness, by productiveness or saving, of the employment, it shall be empowered to grant the loan against note of hand or otherwise, and for any length of time which may appear to it requisite for the purpose, within the limits permitted by the General Meeting, provided always that loans granted for periods longer than a year shall be repayable by regular instalments of equal amount. No loan shall be granted for personal security exceeding Rs. 50 nor any loan, which, together with any money for the time being owing by the member to the Bank, shall exceed Rs. 50. Ordinarily no loan shall be granted for a longer period than three months, and if the borrower does not desire at the end of that period to pay the total due, he shall ask for a renewal. This renewal shall be usually granted subject to the payment of the interest that has accrued in the meantime, and of such

small portion of the original loan as may be determined by the Punchayet provided that it is satisfied that the loan has been put to the use for which it was granted. It shall be the duty of the Committee of Control to ascertain from time to time, if the rules here laid down have been complied with, to enquire into the position of borrowers and their sureties, alike as regards solvency and trustworthiness, and to satisfy itself if the assets of the Bank continue good. Should it find that the security has deteriorated in respect of any claim against a member, it shall be its duty at once to call for additional security, and if that is not forthcoming, to report the case to the General Meeting or else to call in the loan without delay and secure the Bank in such way as it may find practicable. More particularly shall it be the duty of the Committee to satisfy itself by means of the powers referred to above that loans granted to members are employed in the manner agreed upon, and should it find that this is not the case, it shall at once report the matter to the Punchayet who shall proceed to demand repayment of the entire loan, with all interest due, within four weeks, making the sureties answerable, if necessary, or satisfying itself from the security in its possession. In case of repeated unpunctuality on the part of a member in making his stipulated payment the Committee shall have power to ask for his expulsion under Rule VII.

IX.—Reserve Fund.

The entire surplus accruing after defrayal of expenses shall be carried to Reserve which Reserve shall not in any case become divisible among members. The Reserve fund shall, however, be available, if the General Meeting so decide by special resolution, due notice being given to every member at least a clear fortnight before, for making good deficits which may occur.

X.—Deposits.

The Bank shall have power to receive deposits either in money or grain from Members and pay interest upon them at such rates and upon such conditions as the General Meeting shall authorize. It shall not however be held obliged to receive

deposits. With respect to the names of depositors and the amount deposited by each of them the members of the Bank having access to these accounts shall be held pledged to absolute secrecy under penalty of a fine to be fixed by the General Meeting not exceeding Rs. 10.

XI.—Audit.

The Punchayet shall once at least in every year submit the accounts, together with a general statement of the same and all necessary vouchers up to the then last, for audit either to the Committee of Control or else to other auditors specially appointed by vote of the general meeting as an additional checking body, and shall lay before the yearly meeting a balance sheet (which either may or may not be identical with the annual return, but must not be in contradiction to the same), showing the receipts and expenditure, funds and effects of the Bank, together with a statement of the affairs of the Bank since the last ordinary meeting and of their then condition. The auditors shall have access to all the books and accounts of the Bank, and shall examine every balance sheet and annual return of the receipts and expenditure, funds and effects of the Bank, and shall verify the same with the accounts and vouchers relating thereto, and shall either sign the same as found by them to be correct, duly vouched and in accordance with law, or shall specially report to the meeting of the members before which the same is laid in what respect they find it incorrect, unvouched, or not in accordance with law.

XII.—Alteration of Rules and Bye-laws.

It shall be within the power only of a general meeting of members specially called, with notice of a proposal given at least a fortnight before, to alter the above rules in any particular, and only by a vote of three-fourths of all the members belonging to the Bank. No amendment of rules is valid until registered.

XIII.—Miscellaneous.

(*Optional.*)—The Punchayet may from time to time subject to the approval of the general meeting make bye-laws

regulating the special ways in which any branch of the Bank's business shall be carried on.

(*Optional.*)—The Punchayet may empower any one of their number together with the Secretary Accountant, to sign on behalf of the Bank for any specified act or business.

(*Optional.*)—The Punchayet may institute, conduct, defend, compromise, refer to arbitration, and abandon legal and other proceedings and claims by or against the Bank or officers of the Bank and otherwise concerning its affairs.

(*Optional.*)—The Punchayet may arrange for all surplus cash other than that required for current expenses to be kept in deposit, either with the Post Office or with an affiliated Co-operative Town Bank or with both.

(*Optional.*)—The Punchayet may affiliate the Bank with any other Co-operative Town or Village Bank provided the arrangement has the approval of at least three-fourths of the members present in a General Meeting called for the purpose.

(*Optional.*)—Every member shall, within one week from his election, pay into the Bank an entrance fee of four annas or its equivalent in grain as a contribution to the Bank's funds, which entrance fee shall become the absolute property of the Bank, and shall not be returnable to the member in any case. New members shall not be entitled to exercise any rights under the Bank's rules until the entrance fee is paid.

XIV.—Winding up.

The Company shall be wound up whenever an Extraordinary Resolution, as defined by the Indian Companies Act, 1882, is passed, requiring the Company to be wound up voluntarily.

	Name, Address and Description of Subscribers.	Witness.
1	Sd. ...	Sd.
2	Sd. ...	Sd.
3	Sd. ...	Sd.
4	Sd. ...	Sd.
5	Sd. ...	Sd.
6	Sd. ...	Sd.
7	Sd. ...	Sd.